COMMON INTEREST ADVISORS, LLC

Forensic Accounting • Litigation Support • Common Interest Realty Associations

FORENSIC ACCOUNTING REPORT

Forensic Review of the Proposed FY 2026–27 Budget

175 East Delaware Place Homeowners Association

Chicago, Illinois

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Report Information

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Prepared for informational purposes in connection with the review of the Association's proposed FY2026–27 budget.

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Appendix H — FY2026-27 insurance renewal packet (March 16, 2026) —

Appendices are attached behind the exhibits and are separately paginated; page references are assigned at package assembly.

Report Revision History

Version	Date	Description
1.0	July 27, 2026	Initial issuance.
1.1	August 23, 2026	Consolidated amendment. Corrects nine confirmed errors and twenty-eight non-error items identified in CIA's voluntary post-issuance review, and conforms editorial references. No finding of this report is withdrawn. See Schedule of Corrections.

Schedule of Corrections

§1 — Timing and Record Availability at Original Issuance. Version 1.0 was issued on July 27, 2026, only 21 days before the Board adopted the FY2026-27 budget on August 17, 2026. The report was intended to provide owners and directors with independent analysis while that information could still inform consideration of the proposed budget. CIA therefore prioritized completing and issuing its review within that unusually compressed period.

The timing of the original issuance was also influenced by the discovery of material misstatements in the proposed budget while the budget-adoption process was underway. CIA sought to provide its findings while the budget materials reviewed remained the operative proposal, and before subsequent revisions could require substantial portions of the analysis to be reperformed against a changed budget. Accordingly, the original report was issued on an accelerated timetable in advance of the scheduled budget-adoption meeting.

The documentary record also remained incomplete when Version 1.0 was issued. Beginning no later than April 7, 2026, CIA, through unit owners, sought Association records relevant to the Association's finances and budgeting, including general-ledger budget-detail spreadsheets and supporting documentation used in preparing prior fiscal-year budgets. Some requested records were denied, while others were not produced and owners were instead directed to inspect materials maintained in the management office. Certain additional Association records requested through unit owners on July 20, 2026, or earlier were not produced until August 12, 2026 — 16 days after Version 1.0 was issued and only five days before the budget was adopted. Version 1.0 necessarily reflected the records actually made available to CIA as of its issuance date.

Following issuance, CIA voluntarily continued reviewing the report, its supporting workpapers, the source documents previously available, and additional Association records subsequently produced. That self-initiated post-issuance quality-control review identified the corrections and clarifications incorporated into Version 1.1. The corrections were self-identified by CIA rather than prompted by errors reported to CIA by the Association, its Board, management, consultants, or unit owners.

The compressed timetable and subsequent receipt of additional records do not alter CIA's responsibility for the accuracy of its work. Version 1.1 is being issued to correct the matters identified through that review, incorporate appropriate clarification arising from the expanded record, and provide readers with a transparent account of the changes.

§2 — Standard applied. An item is a *confirmed error* only where a source document affirmatively establishes that a proposition stated in the report is false. Where the record is merely silent, or the language merely imprecise, the item is a *correction*. Where the evidence required to resolve a question is not in hand, the item is identified as *open*. No finding of this report is withdrawn.

§3 — Summary of disposition. Confirmed errors corrected: 9. Corrections (non-error): 28. Verification matters identified: 12 (two resolved before issuance of Version 1.1; ten remain open). Editorial conformance items: 8.

§4 — Confirmed errors. D1 — §D-8: the 2022 reserve study does not exclude the on-site apartments; the study carries both jointly at priority-chart line item 5 under the consultant's label "Association-Owned Units, 4616 & 6501: Renovation, Phased," $70,000 each, 4616 by 2032 and 6501 by 2049. D2 — the exhibits: "60.3% funded" and "funding ratio" used a contribution-to-recommendation ratio as a percent-funded measure; corrected at three exhibit loci, the body statements being correct as written. D3 — §D-6: the unfunded-liability trajectory is CIA's calculation using the study's component data, not a calculation made by the study, which uses the cash-flow method and computes neither a fully funded balance nor an unfunded liability. D4 — seven loci: the policy declarations were neither reviewed nor reproduced at Appendix H; the author misspoke, and the insurance analysis rests on the March 16, 2026 Board renewal packet. D5 — §D-5: the alternatives quoted and the subcommittee's recommendation are in the record at the Weidner memorandum; the absence list is narrowed to the broker's marketing summary and placement analysis and documentation of Board review and approval. D6 — Key Finding 5: durability the record does not establish, the AFM Successive Renewal Agreement conditionally documenting next-year pricing only. D7 — §D-6: corrected the per-Unit equivalent of the $973,400 reserve-contribution reduction to approximately $116 per Unit per month on a simple-average basis across approximately 700 Units. D8 — §D-10: corrected the description of the amounts comprising AJE #4; the $93,513.36 Category B subtotal remains correct. D9 — Conclusion: the reference to an original issuance and to refinements is deleted; no version was issued before July 27, 2026, and the Revision History at page 5 is accurate as written.

§5 — Corrections (non-error). Twenty-eight corrections of terminology, labelling, attribution, internal consistency and completeness of citation and source identification, none of which alters a finding. They address: the Common Element status and naming of the manager's and janitor's apartments and the mechanism by which they bear no assessment or parcel obligation; the insurance premium figures and the separation of the two property-package reduction measures; the service-character rather than payer-identity basis for the non-exempt classification of accounts 3900 and 3930, the classification itself being unchanged; the attribution of the approximately $67.7M of scope scheduled beyond the study's 30-year period to the author's totaling; the legal-conclusion register; the §D-11 corroborating figure and the identification of the reported Account 3000 budget; the source basis of the five-year operating presentation at §D-13; the labelling of percentages computed on total operating revenue; the Index of Authorities; the Form 1120-H election mechanics; the exclusion of workers' compensation from total workforce cost; the unit-count taxonomy; the adjusting-entry derivation; and residual artifacts of superseded drafting.

§6 — Matters open. Ten questions raised by the review remain open pending records not held, and are disclosed rather than resolved by assumption. They are the scope of the HO-6 coverage, the return captions, the surety bond, two pairs of near-identical insurance figures, the storage-room rate pair, whether two April fines were Board-approved, a year-to-date figure, the dock-security accrual base, the board-endorsement claim, and whether moving and sale-processing fees are charged to owners or tenants.

§7 — What this amendment does not change. The Section 9(c)(4) analysis; the disclaimer at the Evaluation of Professional Work Products; the §D-8 finding, which rests on disclosure and not on exclusion; the insurance findings, including that the $25,000 deductible budget remains questionable against $144,027 of actual deductible expense through June 30, 2026;

the §D-11 double-count finding and its reconciliation of the 1.926%, 2.500% and 3.750% measures; the reserve underfunding trajectory and both endpoints; the arithmetic of the five-year operating presentation; Exhibit B's arithmetic and Exhibit D's tie-out to Form 1120-H line 2; the $93,513.36 figure; and every citation verified as accurate.

Association Background

The 175 East Delaware Place Homeowners Association is a 703-Unit residential association occupying Floors 44 through 92 of the former John Hancock Center, a 100-story mixed-use high-rise in Chicago, and represents approximately 44.64% of the building's total floor area. According to Illinois Secretary of State records, the Association was incorporated on May 2, 1973.

The Association is governed by a 48-member Board of Directors — an unusually large governing body for a residential condominium association. The current Board meeting minutes identify the present Board as the Association's 53rd Board of Directors. According to the Association's election materials, every current director was endorsed by the current Board President before election and was subsequently elected by the unit owners; as a result, all 48 current directors presently serving on the Board were elected after receiving the Board President's endorsement.

Sudler Property Management has managed the property since at least the 1973 condominium conversion, when governance transferred from the developer to the Association acting through its elected Board of Directors. Since that time, Sudler has continued — and continues — to serve as the Association's professional managing agent under contract with the Board, performing management, accounting, budgeting, administrative, and operational functions pursuant to authority delegated under the management agreement. The Board of Directors retains ultimate fiduciary responsibility for the governance and affairs of the Association.

The accounting practices, financial reporting, and budgeting methodologies examined in this report developed over approximately five decades, under a continuous professional management relationship and successive Boards of Directors. That history matters here because this report evaluates a forward-looking proposed budget using the accounting records, financial information, and budgeting methodologies developed over that period — and the reliability of such a budget depends in part upon whether the historical financial information supporting it was prepared using consistent, transparent, and well-documented accounting methods.

This Background is provided to establish institutional, historical, and governance context only. It is not, by itself, a finding or an opinion, and the findings and opinions expressed in this report are supported by the documentary evidence presented in the sections that follow.

Scope and Purpose

This report is not a comprehensive forensic investigation of the Association, nor is it an audit opinion on its financial statements. Rather, it addresses a practical governance question: whether the Board has enough reliable information to approve the proposed FY2026-27 budget. It evaluates the budget in light of the Association's historical accounting records, budget assumptions, governance practices, and other financial information made available to the author. Where historical accounting practices materially affect the reliability of the proposed budget, those matters are discussed because they directly impact the Board's budgeting decisions.

Accounting Framework

Two structural features of the Association's reporting bear on several findings. The first is a mismatch of dates: the Association operates on a fiscal year ending August 31, while regular assessment changes have in practice taken effect January 1 (under Article VI, §5 of the Declaration, a new rate becomes payable with the first monthly maintenance payment due more than ten days after the new annual or adjusted estimate is mailed or delivered), and Article VI, §1 of the Declaration requires the Board to provide owners an itemized accounting of the preceding calendar year's common expenses on or before April 1. Because the fiscal-year close, the assessment-change date, and the owner accounting fall on different dates — and the owner accounting runs on a calendar-year basis that fiscal-year statements do not directly report — this framework increases the importance of maintaining accurate accruals, reversing year-end accruals, and presenting budget assumptions consistently across reporting periods; errors in those processes can distort both the proposed fiscal-year budget and the year-end accounting the Declaration requires the Board to deliver to owners (developed in §D-11).

The second governs how revenue is classified throughout this report. The Association's federal income tax return on Form 1120-H turns on the distinction between exempt function income — the assessments, dues, and fees collected from the Association's own members — and all other income, which is non-exempt. Revenue from sources other than member assessments, including the laundry and storage operations, the cable-television and Wi-Fi charges, the commercial and residential leases, and investment interest, falls on the non-exempt side. This report refers to the member side as *assessment* and to the non-exempt side as *ancillary*, and uses those terms throughout. The proposed budget itself draws no such line: it carries neither an assessment/ancillary allocation nor an exempt/non-exempt distinction of its own, so the classification applied in this report is taken from the Association's general ledger and its own most recent Form 1120-H, applied at the account level and reconciled in Exhibit A. Because that classification determines which revenues are treated as ancillary and how much common overhead those operations absorb, it is developed in full, with its supporting authority and this report's corrections to individual column placements, at §D-9 and Exhibit C.

Methodology

The findings in this report were developed by comparing the Association's accounting records, governing documents, historical budgets, audited financial statements, reserve studies, tax returns, management accounting records, and other documentary evidence, and by evaluating the internal consistency, documentation, transparency, and reliability of the accounting information supporting the proposed budget. Where the documents reviewed are inconsistent with one another, with the Association's governing documents, or with the proposed budget's assumptions, those inconsistencies are identified in the sections that follow and cited to the underlying documents.

The FY2026-27 package presents overlapping financial information at multiple levels of aggregation, including the Finance Committee transmittal, a one-page budget summary comparison, the detailed proposed budget schedules (referred to in this report as the budget-detail schedules), and the supporting account-level schedules. Where the same budget element is presented at different levels of detail or the reported figures are not consistent across those documents, the numerical analysis in this report follows the detailed proposed budget schedules and the underlying account-level records. Exhibits A and H are prepared on that basis. This convention is appropriate because the detailed schedules are the level at which the budget is developed, and the underlying account-level records provide the most granular support for the reported amounts. This is an analytical convention adopted for consistency, traceability, and reproducibility, not a legal conclusion that one Association document supersedes another, and no finding in this report depends on such a legal conclusion.

Materials Reviewed

The review is based on the following materials:

- **Budget and management accounting records:** the Sudler category detail dated 6/1/2026; the proposed FY2026-27 budget drafts dated June 12, 2026 and July 3, 2026, and the author's comparison of the expense-allocation percentages they apply (July 3, 2026); the color-coded consolidated proposed budget spreadsheet dated July 22, 2026 (CIA markup; classification corrections applied; provided as an accompanying document, Exhibit H); the Association's financial statements as of 6/30/2026, including the balance sheet generated from the accounting system on July 7, 2026; the Association's accounts-receivable aging dated May 11, 2026; "175 East Delaware Place Homeowners Association – AR Aging – 7/13/2026"; the proposed FY2026-27 budget package as contained in the July 20, 2026 Board packet — the advance copy of the package for owner distribution — including its reserve and capital budget schedules (Sudler, July 9, 2026); the Association's approved FY2025-26 budget with the schedule of each unit's assessment, distributed to owners August 20, 2025; and the managing agent's July 2025 owner communication transmitting a revised FY2025-26 proposed budget.
- **Audit and tax records:** the auditor's adjusted trial balance and adjusting journal entries for FYE August 31, 2025 (CondoCPA workpapers dated 12/19/2025, recorded effective 8/31/2025); the Association's audited financial statements; and the Association's latest federal and state income tax returns.
- **Governing documents and reserve planning:** the Declaration's Year-End Accounting and Shortage Adjustment provision; and the Association's 2022 Reserve Study Update (Revision #2; date of inspection January 19, 2022) (Appendix C).
- **Finance Committee and Board communications:** the Finance Committee's FY2025-26 budget transmittal and Exhibit A (June 30, 2025) (Appendix E); the Finance Committee's FY2026-27 budget transmittal; the Treasurer's May 21, 2026 email concerning the Fannie Mae reserve-guideline update (Appendix F); and the Finance Committee's FY2022-23 budget transmittal and Exhibit A (July 19, 2022) (Appendix G).
- **Insurance records:** the Association's FY2026-27 insurance renewal packet dated March 16, 2026, reproduced at Appendix H (subcommittee memorandum, proposed resolution, FY2010-11 through FY2025-26 premium history, and Baldwin Group coverage comparison chart); the policy declarations were not reviewed and are not reproduced at Appendix H (Appendix H).
- **Regulatory and lending guidance:** the IDFPR Ombudsperson FAQ "How Does An Association Adopt A Budget?" (3/11/2026); and Fannie Mae Lender Letter LL-2026-03 / Freddie Mac Bulletin 2026-C (3/18/2026).
- **Legal correspondence:** the Association's counsel's July 6, 2026 response to the owners' 765 ILCS 605/19 records inspection request.

A companion working paper, "Exempt-Function Classification Corrections & Tax Crosswalk" (July 4, 2026), supports the classification analysis summarized in Exhibit C.

Professional Judgment

The opinions expressed in this report are accounting and financial opinions based on the accounting records, financial statements, governing documents, and other materials identified in this report; they do not constitute legal, tax, or investment advice. Where relevant records were unavailable, incomplete, or not produced, that limitation is identified, and the opinions expressed are limited to the evidence available.

This report should be evaluated on the accuracy of its facts, calculations, citations, analysis, and supporting evidence, rather than on the identity of its author or on the agreement or disagreement of any interested party with its conclusions. Any party asserting that the report contains an error is invited to identify the specific page, section, exhibit, workpaper, calculation, or factual statement at issue, together with the competent evidence supporting the proposed correction.

Common Interest Advisors, LLC will evaluate any substantiated factual, mathematical, citation, evidentiary, or analytical issue so identified, applying the same evidentiary standards applied throughout this engagement. Where a revision is warranted, a new version of the report will be issued, and the Report Revision History will document the version number, the date, and the nature of and reason for the revision; prior versions are preserved, so that the revision history remains complete and independently reviewable. Disagreement with the report's conclusions, standing alone, neither establishes error nor diminishes the evidentiary weight of the underlying facts and analysis; any revision rests upon a demonstrable factual, mathematical, citation, evidentiary, or analytical deficiency supported by competent evidence.

Assumptions and Limitations

This report is subject to the following assumptions and limitations, which define the scope of the opinions expressed:

1. This review is limited to whether the FY2026-27 proposed budget, and the records underlying it, provide a reliable basis for the Board's pre-adoption decision. It is not a financial-statement audit, a fraud examination, or a comprehensive forensic investigation of the Association, and no opinion is expressed on matters outside the budget-adoption question.
2. The analysis relies on documents provided by or obtained on behalf of the engaging owners and the Association — including the proposed budget, the FY2025 audited financial statements and adjusting journal entries, the audited financial statements for FY2009-10 and FY2024-25 from which the long-term ancillary comparison at §D-8 is drawn, a single owner's account ledger reconciliation covering January 1, 2010 through July 12, 2022, the FY2026-27 fiscal-year category detail for Storage & Bike Rental Income (account 3590, last updated May 14, 2026) with its sixteen-year budget-and-actual history and its locker, storage-room, fitness-locker and bicycle rate tables, prior federal and state tax returns, the Declaration, association counsel's written correspondence, the reserve study, election tabulation letters, and the author's consolidated allocation analysis (Exhibit A). Except where stated, these documents were relied upon as provided and were not independently audited or verified.
3. The budget reviewed is a proposed, pre-adoption draft. The budget the Board ultimately adopts may differ; the figures, allocations, and treatments identified here should be re-evaluated against it once adopted.
4. Certain figures — for example, the order-of-magnitude estimate of the unfunded reserve liability — are expressly identified as the author's estimates and are not represented as precise computations.
5. This report addresses accounting and financial-reporting matters. Where it refers to legal, statutory, governance, or contractual requirements, it does so to identify facts relevant to those requirements; it applies those authorities to the facts developed in the records reviewed and states conclusions about how they apply. It does not render legal advice, and it expresses no opinion on ultimate legal liability, on the outcome of any claim or proceeding, or on any defense that may be available to any person. Those determinations are for counsel and for the trier of fact.

Index of Authorities

The authorities and sources relied upon in this report are organized below according to their relative legal and professional weight: binding legal authorities; authoritative professional standards; persuasive authorities; and the primary documentary evidence from which the report's findings are drawn. Where authorities conflict, binding legal authorities take precedence over professional standards, persuasive guidance, and documentary evidence. Section references indicate where each authority is principally applied; primary source documents are attached as Appendices or Exhibits, or held in the engagement working papers, as indicated.

References in this report to Working Papers (WP-A, WP-B, WP-C, WP-H, and WP-LF-1) denote analytical compilations prepared during this engagement. They are not independent legal or accounting authorities; they are analytical work products derived from, and traceable to, the documentary evidence identified in this Index, and are included among the Companion Working Papers described under Document Organization.

I. Binding Legal Authorities

Federal Statutes

- Internal Revenue Code §118 — contributions to the capital of a corporation; the conditions under which reserve contributions qualify as capital contributions on a Form 1120 (§D-14)
- Internal Revenue Code §277 — deductions incurred by membership organizations; taxation of excess member income on a Form 1120 (§D-14)
- Internal Revenue Code §528 — taxation of homeowners associations; exempt function income (mandatory, pro-rata member assessments only); 30% flat rate on non-exempt income (§D-6, §D-10, §D-15; Exhibit G)

Federal Regulations

- Treasury Regulation §1.183-2(b) — facts-and-circumstances factors bearing on a profit objective, cited as a reference point (particularly the sustained-loss factor, §1.183-2(b)(6)); IRC §183 itself applies only to individuals and S corporations and is not authority for this Association's returns (§D-14; Exhibit G)
- Treasury Regulation §1.528-9 — definition of exempt function income (Exhibit C; WP-C)
- Treasury Regulation §1.528-10 — special rules for computation of homeowners association taxable income; allocation of expenses between exempt and non-exempt uses on a reasonable basis (§D-9, §D-14)

IRS Administrative Authorities

- Revenue Ruling 70-604 — member election on excess assessments (§D-6, §D-11)
- Form 1120-H — U.S. income tax return for homeowners associations (Appendix A; the classification benchmark relied on throughout)

- Instructions for Form 1120-H — purpose of the form and exclusion of exempt function income; definition of exempt function income and the 60% gross-income test; and the taxable-income computation (gross income less exempt function income, less directly-connected deductions, plus the $100 specific deduction) (Appendix A; §D-9, Exhibit C)

Illinois Statutes

- Illinois Condominium Property Act (765 ILCS 605/) — including §9 (common expenses and permitted expenditures), §9(c)(1) (proposed budget and 25-day distribution), §9(c)(2) (reasonable reserves), §9(c)(3) (owner-vote reserve waiver), §9(c)(4) (safe-harbor liability shield), §18 (board powers and authorization of expenditures), §18.10 (GAAP-basis records for 100+ units), §19 (records inspection), and §22.1 (resale disclosure) (§D-6, §D-8, §D-10, §D-12, §D-15; Exhibit E)

Illinois Administrative Regulations

- Title 68, Illinois Administrative Code, Part 1445 (where applicable) — community-association-manager bookkeeping (1445.130(b)) and professional-conduct standards (1445.300(b), (e), (f)) (§D-10)

Judicial Authorities

Crooks v. Hidden Grove Condominium Association — late-fee assessment on delinquent assessment balances (§D-8; Exhibit F). Treasury Regulation §1.528-9(d) — exempt function income, further definition (§D-9; Exhibit C; WP-C). Internal Revenue Code §61 — gross income defined (§D-9). PPC ¶502.33 and ¶502.42 — homeowners association exempt-function classification and separate-billing considerations (§D-8; §D-9). Reserve study: Building Reserves, Inc., Full Reserve Study, Revision #2, dated May 20, 2022 (Appendix C; §D-6).

- *Portland Golf Club v. Commissioner* — profit-motive and allocation analysis for non-exempt activity (Exhibit C; WP-C; Exhibit G)
- *Losantiville Country Club v. Commissioner*, T.C. Memo. 2017-158, aff'd, No. 17-2394 (6th Cir. Oct. 15, 2018) — profit-motive requirement for offsetting investment income with nonmember-activity losses, applying *Portland Golf Club*; the §1.183-2(b) factors held not to substitute for the profitability showing (Exhibit G)
- *Concord Consumers Housing Cooperative v. Commissioner* — exempt function income and cooperative/association taxation (§D-6; Exhibit C; WP-C)
- *Bd. of Directors of Warren Blvd. Condominium Ass'n v. Milton*, 399 Ill. App. 3d 922 (1st Dist. 2010) — the association–owner relationship is governed by contract (the declaration and bylaws) and by statute (§D-15)
- *Crooks v. Hidden Grove* — late fees enforceable only on delinquent assessments (§D-8)
- *Stobe v. 842–848 W. Bradley Place Condominium Ass'n*, 2016 IL App (1st) 141427 — a condominium declaration is construed under the principles of contract interpretation (§D-15)

II. Authoritative Professional Standards

FASB Accounting Standards Codification

- FASB ASC 250 — Accounting Changes and Error Corrections — disclosure of reclassifications affecting comparability (the fines-into-late-fees reclassification) (§D-15)
- FASB ASC 326 — Financial Instruments—Credit Losses (the CECL / expected-credit-loss model) — applicable to the Association's assessment and other receivables (§D-7)
- FASB ASC 606 — Revenue from Contracts with Customers — principal-versus-agent and gross reporting of revenues and expenses (ASC 606-10-55-36 to 55-40; special-assessment pass-throughs), and the performance-obligation / contract-liability (deferred-revenue) recognition question for reserve and special assessments (an area of diversity in practice, treated in this report as a policy-and-disclosure matter); FASB ASC 210-20 offsetting distinguished as inapplicable to income-statement netting (§D-7, §D-15)
- FASB Accounting Standards Codification Topic 972 — Real Estate—Common Interest Realty Associations (basis of accounting, fund reporting, reserve disclosures; §D-6, §D-10)

AICPA Professional Standards

- AICPA AU-C 240 — Consideration of Fraud in a Financial Statement Audit (management override of controls; fraud risk from off-books cash activity; §D-15)
- AICPA AU-C 265 — Communicating Internal Control Related Matters Identified in an Audit (significant deficiency and material weakness; §D-15)

III. Persuasive Authorities

Administrative Guidance

- IDFPR Ombudsperson FAQ, "How Does An Association Adopt A Budget?" (3/11/2026) — budget-adoption process guidance (Materials Reviewed)

Professional Accounting Literature

- PPC Guide to Homeowners' Associations and Other Common Interest Realty Associations (Thirty-Sixth Edition, August 2025) (industry practice for CIRA accounting, reserves, and reporting; and audit checklist HOA-CX-6.2, Fraudulent Financial Reporting — Incentives/Pressures, items 1.a.(3) and 1.a.(7), on reserve-study and budget fraud risk factors; and §§301.16 and 509.46 on voluntary social/holiday funds (custodial versus combined presentation); §D-6, §D-10, §D-15)

Secondary-Market Standards

- Fannie Mae Lender Letter LL-2026-03 and Freddie Mac Bulletin 2026-C — project eligibility, reserve, and Full-Review standards (§D-6; Exhibit E)

Association Governing Documents

- Declaration — principally Article VI, §1 (Assessments & Maintenance Fund: proposed budget, 25-day distribution, reasonable-reserve requirements, and the year-end accounting and shortage-adjustment provision; §D-6, §D-11); Article VI, §5 (delivery of the annual or adjusted estimate and the effective date of new assessment rates; Accounting Framework; §D-11); Article VI, §6 (books and records; §D-10); Article V, §7 (general powers of the Board, including keeping records and engaging accountants; §D-1); Article V, §6(B) (Treasurer's responsibility for the financial records and books of account; §D-10); Article V, §2 (the Association operates the property and is not a commercial enterprise; §D-9); and the Year-End Accounting and Shortage Adjustment provision (§D-11)
- Bylaws (§D-6, §D-12)
- Management Agreement — including §2.3 and §§2.6–2.7 (management-fee, employment, reimbursement, and payroll-compliance provisions) (Appendix B; §D-1)

IV. Primary Documentary Evidence

Budgets and Budget Workpapers

- Proposed and historical budgets (the Association's proposed FY2026-27 budget, per the Sudler category detail dated 6/1/2026, and prior-year budgets); the Board's proposed FY2026-27 budget package, including its operating, reserve, and capital budget schedules (Sudler, July 9, 2026) (§D-6; §D-10; §D-14 — source of the budgeted income-tax provision carried in the reserve schedule); the color-coded consolidated summary (July 22, 2026; Exhibit H) is the author's markup of those budget figures — a work product of this engagement, not an Association record, and covers operating accounts only
- The successive proposed FY2026-27 budget drafts dated June 12, 2026 and July 3, 2026, together with the author's comparison of the expense-allocation percentages they apply (July 3, 2026) — the comparison being a work product of this engagement rather than an Association record — constituting the primary documentary basis for the drafting-history and allocation-methodology discussion (§D-9)

Financial Statements

- Audited financial statements (§D-10, §D-13)
- Financial statements as of 6/30/2026, including the balance sheet generated from the accounting system on July 7, 2026 (reserve investment balances; Accrued Interest Receivable; §D-10; Key Findings 1 and 2)

General Ledger and Trial Balances

- Trial balances and general ledger (§D-9, §D-10)

Adjusting Journal Entries

- Adjusting journal entries, FYE 8/31/2025 (Appendix D; Exhibit D; §D-10)

Reserve Studies

- Reserve study (2022), selected pages (Appendix C; §D-6; Exhibit E)

Tax Returns

- Federal and state tax returns, including the FY2025 (2024) Form 1120-H (Appendix A)

Insurance Records

- The Association's FY2026-27 insurance renewal packet dated March 16, 2026, reproduced at Appendix H (subcommittee memorandum, proposed resolution, FY2010-11 through FY2025-26 premium history, and Baldwin Group coverage comparison chart); the policy declarations were not reviewed and are not reproduced at Appendix H (Appendix H; §D-5)

Board, Management, and Legal Correspondence

- Finance Committee FY2025-26 budget transmittal and Exhibit A (June 30, 2025) (Appendix E; §D-6, §D-8, §D-12)
- Finance Committee FY2026-27 budget transmittal (Materials Reviewed)
- Finance Committee FY2022-23 budget transmittal and Exhibit A (July 19, 2022) (Appendix G; §D-6, §D-12)
- Treasurer's May 21, 2026 email concerning the Fannie Mae reserve-guideline update (Appendix F; §D-6)
- Association counsel's July 6, 2026 response to the owners' 765 ILCS 605/19 records inspection request (§D-8)
- Management Report to the Board dated June 15, 2026 (§D-16)

Other Association Records

- Board meeting minutes, open and executive session, covering approximately July 18, 2016 through July 18, 2026 (Association Background; §D-1; §D-6; §D-16)
- Election materials, including election tabulation letters (Association Background)
- Accounts-receivable aging dated May 11, 2026 (§D-8)
- "175 East Delaware Place Homeowners Association – AR Aging – 7/13/2026" (accounts-receivable aging by property and charge type; §D-7)
- Collective bargaining agreement (ABOMA / SEIU Local 1) governing the janitorial staff (§D-1)
- AUS Energy utility estimate dated May 8, 2026 supporting the utilities budget (§D-2)

Document Organization

This report consists of three categories of supporting material. This roadmap explains how they fit together.

About the Exhibits

Exhibits are integral parts of the report and contain the principal evidence supporting the findings and conclusions. They are included immediately following the report.

About the Appendices

Appendices contain primary source documents referenced throughout the report, including selected records produced by the Association. They are provided to facilitate independent verification of the report's findings.

Companion Working Papers

Companion Working Papers contain detailed calculations, reconciliations, tax analyses, allocation schedules, forensic reconstructions, and other supporting documentation prepared during the engagement. They are included with this report to support the findings and facilitate independent review.

Issues at a Glance

The table below summarizes, at a glance, whether each condition necessary for a reliable budget-adoption decision is currently satisfied. Every item is developed in the Key Findings and Detailed Analysis that follow; the section references point to the supporting evidence. For the exempt-function row, the corrected classification has been prepared in the author's analysis (Exhibit C) but not adopted into the official budget, which makes no exempt/non-exempt distinction of its own; it is completed by Board adoption of that classification, not by further management work. More broadly, the Board's package opens with a single-page category summary and continues with account-level schedules for operations and for reserves, but it carries no assessment/ancillary allocation and no exempt/nonexempt distinction of its own — so the allocation and exempt/nonexempt analysis in this report is drawn from the general ledger and the Association's own Form 1120-H, applied in the author's Exhibit A.

Condition for a reliable adoption decision	**Met?**	**See**
Current FY2025-26 budget reconciles to the prior year's adopted budget	✗ No	Key Finding 5; §D-11
Current-year amounts presented in the package agree with the Association's own accounting results	✗ No	§D-9; §D-11
Budget package internally consistent without independent reconciliation	✗ No	§D-9; Exhibits A and H
Reserve waiver legally authorized (owner vote)	✗ No	Key Finding 3; §D-6
Reserve funding meets secondary-market (Fannie/Freddie) standard	✗ No	Key Finding 4; §D-6
Reserve study current	✗ No	Key Finding 4; §D-6
Prior-year audit accruals reversed	✗ No	Key Finding 1; §D-10
Monthly books maintained on the audit's (GAAP) basis	✗ No	Key Finding 2; §D-10
Workforce / staffing plan provided	✗ No	Key Finding 6; §D-1
Lease and non-assessment (ancillary) revenue verifiable from the budget	✗ No	Key Findings 8–10; §D-8
Corrected exempt-function classification adopted	✗ No	Key Finding 11; §D-9

Condition for a reliable adoption decision	Met?	See
Per-unit assessment schedule provided to owners	✗ No	Key Finding 12; §D-12
Current-year shortfall & shortage assessment disclosed	✗ No	Key Finding 5; §D-11
Financial activity reported gross (not netted to $0); Association funds disbursed only with Board authorization	✗ No	Key Findings 14–15; §D-15
Each ancillary operation's net result disclosed to the Board before adoption	✗ No	Key Finding 16; §D-8, §D-4, §D-14
Operating-fund / working-capital target kept current (not eroded by inflation)	✗ No	Key Finding 13; §D-11
Provision for uncollectible assessments / credit losses budgeted	✗ No	§D-7
Tax on the nonexempt income the budget will generate provided for as an operating cost (budgeted $110,728 federal / $15,000 state, charged against reserves)	✗ No	§D-14

Recommendation: defer adoption until these items are resolved. Each is specific, documented, and correctable before the August 17 vote. The recommendation asks the Board to do four things: obtain the information identified above and in Exhibit F; review the underlying evidence, which comes from the Association's own records; evaluate the documented issues; and make an informed budget decision on that record before adoption. It rests on the documented evidence and on the Board's own informed review, not on acceptance of this report's conclusions. The three-question Executive Summary that follows explains its basis.

One timing fact sharpens the recommendation. The Board will consider the FY2026-27 budget using financial information only through April 30, 2026: the Finance Committee completed its work in early June, and the Board will therefore act without May and June operating results before adoption. The prior cycle shows why that matters — the committee's July 21, 2025 projection of roughly $200,000 of favorable underspend closed the year, forty-one days later, at a $2,723 surplus, an approximately $197,000 variance between projected and actual operating results (§D-6). More current financial information — at minimum the May and June results, and ideally results through July — would materially improve the reliability of the projections the Board is being asked to adopt.

Executive Summary

This summary answers the three questions the Board faces as it approaches the August 17 adoption vote: whether it can rely on the proposed budget for approval, why not, and what should happen before adoption.

1. Can the Board rely on this budget for approval?

Not in its current form. Based on the procedures performed and the matters discussed throughout this report, the proposed FY2026-27 budget does not yet provide a sufficiently reliable basis for Board approval. Material accounting, financial-reporting, governance, and disclosure deficiencies should be corrected before the budget is adopted. Subject to those corrections, the Board can then evaluate whether the revised budget appropriately reflects the Association's anticipated operating requirements and long-term financial obligations. Whether the Board has enough reliable information to approve a budget depends on the reliability of the records it is built from, the authority behind the decisions it embeds, and the completeness of what it discloses to the owners who must fund it; on all three, the proposed budget presently falls short in ways that are specific, quantifiable, and correctable.

One distinction runs through what follows. The package as issued contained documented internal inconsistencies — a FY2025-26 comparative that does not reconcile to the prior year's adopted budget, current-year amounts that do not agree with the Association's own accounting results, and an annual assessment total that cannot be tied to owner-level amounts from the materials distributed — so the figures in this report could not be developed from the package alone and required independent reconciliation, consolidated in Exhibits A and H. Those are questions about the reliability of the package as presented, and they are evaluated separately from the substantive budgeting judgments the package reflects, several of which move in the direction the Association's own reserve study and loss experience indicate. This report therefore reaches two conclusions rather than one: the first concerns the quality of the budget information the Board received, the second the quality of the preparation, reconciliation, and review process that produced it (Evaluation of Professional Work Products, V).

2. Why not?

The budget totals $10,915,438 of operating expense against $10,935,576 of operating revenue, a net operating surplus of approximately $20,000. On CIA's corrected allocation (Exhibit A) — after the deduction caps and the burden-follows-payroll correction — that surplus resolves into a $472,489 surplus on the assessment side and a $452,351 loss on the ancillary side. Separately from operating, it contributes $1,480,000 to reserves; measured against the reserve study's $2,453,400 recommendation — a comparison the budget itself does not make — that leaves a $973,400 shortfall the budget itself neither states nor computes; it shows only the $1,480,000 contribution, with the budget schedules containing no reference to the recommendation and no quantification of the gap (the "waived per finance committee" label is CIA's own workpaper annotation, not the budget's). Assessments rise to $10,007,019. On a consistent basis — twelve months at the current monthly assessment — that is an increase of $244,074, or 2.500%, which the budget implements as a

3.750% step effective January 1, 2027 because it is recovered over the last eight months of the fiscal year. Exhibit H separately prints a 1.926% budget-over-budget change for the assessment account; the three measures are reconciled at §D-11. These headline figures are individually unremarkable; the concern is what sits beneath them. Six principal deficiencies bear on whether the Board can rely on the budget:

The records the budget is built from require annual correction to reach an accepted accounting basis. Management's December 2025 general ledger contains REV AUDIT entries reversing many of the auditor's year-end accrual entries for the year ended August 31, 2025, but the reversals were not universal: approximately $95,600 of accrued reserve interest — the Accrued Interest Receivable, account 1410 — was not reversed and remained recorded at $95,597.84 — on the June 30, 2026 balance sheet, on the balance sheet the accounting system generated July 7, 2026, and in a general ledger containing no reversing entry — leaving prior-year income positioned to be recognized a second time in the current year depending on how subsequent interest receipts were applied (the auditor's approximately $115,000 FY2025 federal income tax accrual was, by contrast, not recorded by management in August 2025; management booked it in December 2025 and subsequently reversed it, so the associated payable has been settled off the books and poses no double-count risk), and a year-end property-tax accrual of approximately $64,000 in total, split between two general-ledger accounts, was recorded by neither management nor the independent auditor and is reflected only in CIA's proposed analytical adjustments. Separately and independently, the Association records its reserve investment portfolio at market value on the monthly books, so unrealized gains and losses flow through the Reserve Interest Income account until the auditor adjusts the portfolio back to amortized (held-to-maturity) cost at year-end — meaning the monthly statements the Board relies on are prepared on a different accounting basis than the audited statements. These are distinct problems with distinct remedies (account-by-account resolution of the unreversed and omitted accruals; a change in bookkeeping basis for the investments), and they are chronic rather than isolated; management's post-audit accounting treatment varied by account, and the resulting distortion propagates into the proposed figures and the change percentages most directors read.

The reserve waiver — the budget's most consequential decision — was not made by the body with authority to make it. Under Illinois law, the power to waive reserve funding rests with the owners (two-thirds of the total votes of the association), not the Board or a committee. The budget funds reserves $973,400 below the study's recommended contribution, with no owner vote known to have occurred; the shortfall was set at the committee/Board level, which has no such authority, and the budget does not state it on its face. Because no valid, disclosed waiver exists, the statutory liability shield the Act would otherwise provide is unavailable.

The reserve waiver carries a marketability cost on a fixed schedule. Effective August 3, 2026 — fourteen days before the vote — revised secondary-market lending standards subject an association of this size to full budget-and-reserve review, and a contribution below the study's recommendation fails that review by the amount of the waiver. The practical consequence is impaired conventional financing and refinancing availability for every unit in the building.

The budget reflects three financial postures that do not cohere. Management's year-end projection reflects a small operating surplus for the current fiscal year — but that projection omits approximately $64,000 of lease-related property-tax liability attributable to the final eight months of the fiscal year, because those taxes had not yet been billed. Recording that required year-end accrual converts the projected surplus into an operating deficit. The owner-facing budget materials disclose neither the omitted liability nor the resulting deficit. Under the Declaration, an operating deficit may result in a mandatory shortage assessment to owners, yet the budget package does not discuss either the adjusted year-end position or the potential resulting assessment. At the same time, the proposed FY2026-27 budget reflects a $472,489 assessment-side surplus while waiving approximately $973,400 of reserve contributions on an affordability rationale. The FY2026-27 assessment-side surplus alone would offset nearly half of the waived reserve contribution, and a $521,800 reduction in insurance expense — the largest favorable variance in the proposed budget — more than funds both the $460,000 increase in the reserve contribution and the entire net operating surplus, so the budget's reserve improvement and its operating balance alike rest on a single year's insurance result whose durability the record does not establish (§D-5). This posture is more concerning in light of the Association's five-year trend (Detailed Analysis §D-13): operating expenses grew about 2.6 times faster than income from FY2019-20 through FY2024-25, consuming the operating surplus almost entirely — from $1,166,717 to $2,723 — and the proposed budget's own net result of approximately $20,000 sits essentially at that break-even endpoint. The Board is, moreover, asked to act on this budget without May or June actual results: the Finance Committee developed it from information available only through April 30, 2026 (§D-9). Extending the actual results through June 30, 2026 shows what that omitted: seven accounts had already exceeded management's full-year projections with two months still to run — a net unfavorable effect of approximately $170,333, driven principally by insurance deductibles and electricity — so the current-year projections against which the proposed budget is measured were no longer a reliable statement of expected results.

The largest category in the budget is presented without the information needed to evaluate it. Payroll, benefits, management compensation, and taxes account for roughly 28% of the budget, yet the package contains no workforce plan, commingles the Association's union employees with the management company's contracted personnel without totaling either, and splits the true management-office cost across three separate budget sections. The absence of a staffing plan is not academic: payroll overruns are the primary driver of the current-year deficit. Related revenue and lease items — a manager's apartment budgeted at a frozen, below-market rent the budget renews by assumption; commercial lease revenue the Board cannot verify because the tenant's required sales disclosures have not been produced; and late-fee revenue running far below budget while credits exceed new charges — each reflect amounts accepted without the documentation that would make them verifiable.

The adoption process carries a disclosure defect with a deadline. Illinois law requires that owners receive, at least 25 days before the adoption meeting, a proposed budget indicating with particularity each unit owner's anticipated assessments and other anticipated income. The Declaration reinforces the point from the assessment side: an owner "shall continue to pay the monthly maintenance charge at the then existing monthly rate established for the previous period until the first monthly maintenance payment which is due more than ten (10) days after such new annual or adjusted estimate shall have been mailed or delivered” (Article VI, §5) — delivery of the new estimate is what changes what owners pay, so proof of delivery is load-bearing under the Declaration as well as the statute. The Association’s materials have consistently omitted the per-unit schedule, which is not merely a formality but the reconciliation device that would have caught several of the classification and arithmetic errors in last year’s proposed budget; a distribution lacking it is vulnerable to challenge on the ground that it never started the statutory clock.

3. What should happen next?

None of these deficiencies turns on judgment or estimation on which reasonable professionals might differ; each is specific, documented, and correctable before August 17. Before adoption, the Board should require: (1) the December 2025 REV AUDIT journal detail matched to each FY2024-25 audit adjusting entry (Appendix D), together with the basis and disposition of the unreversed $95,597.84 Accrued Interest Receivable, support for the omitted ~$64,000 property-tax accrual, and the written basis for the market-value investment policy; (2) that the reserve-funding decision be placed before the body with authority to make it — the owners — and that the Association’s secondary-market compliance plan and reserve-study status be produced; (3) the workforce, management-compensation, lease, and late-fee documentation identified in the Key Findings and consolidated in Exhibit F; (4) adoption of the corrected exempt-function classification (Exhibit C); and (5) distribution of a compliant per-unit budget within the statutory window, with proof of delivery; (6) a reset of the operating-fund/working-capital target — eroded by $625,420.50 against the Board’s own standard — and a budgeted provision for credit losses, for which the budget currently reserves nothing against real delinquency; (7) the federal tax-election analysis (Form 1120 versus 1120-H) and a provision for the income tax the budget will owe on its non-exempt income, currently carried as a reserve expenditure ($110,728 federal and $15,000 state — $125,728 in total) rather than as an operating cost; and (8) per-operation profit-and-loss detail for the ancillary operations, so the Board can see which carry the loss and whether those losses are deductible. The recommended course is to defer adoption until these corrections and analyses are complete, at which point the Board will have a reliable basis on which to evaluate and approve the budget. The Key Findings that follow summarize each issue and the corrective action or information required; the Detailed Analysis supplies the supporting evidence; and the Exhibits provide the reconciliations, schedules, and the consolidated information demand.

Key Findings

Each finding below states the issue, why it bears on the budget's reasonableness, and the correction or information the Board should require before adoption. Section references point to the supporting evidence in the Detailed Analysis and to the relevant Exhibit.

1. The FY2024-25 audit accruals were reversed in many cases, but not all — the $95,597.84 Accrued Interest Receivable remains on the books. The auditor's FYE 8/31/2025 adjustments were posted effective-dated 8/31/2025, and management's December 2025 general ledger contains REV AUDIT entries reversing many of the accrual entries among them — but the reversals were not universal: the approximately $95,600 Accrued Interest Receivable (account 1410) was not reversed; the June 30, 2026 balance sheet continued to report it at $95,597.84 as a reserve asset, the accounting system still reported that balance on the balance sheet generated July 7, 2026, and the general ledger reviewed for this engagement contains no entry reversing or removing it (the associated accounts payable for the $115,000 FY2025 federal income tax has been settled off the books, eliminating that double-count risk). Management's post-audit accounting treatment varied by account; conclusions regarding any individual balance therefore require account-by-account analysis rather than generalization in either direction. Two further items sit outside the reversal question entirely: a year-end property-tax accrual of approximately $64,000 in total, split between two general-ledger accounts, that neither management nor the independent auditor recorded — reflected only in CIA's proposed analytical adjustments and unrelated to the Accrued Interest Receivable — and the continuing carriage of reserve investments at market value rather than amortized cost, the accounting-policy matter addressed in Finding 2. *Why it matters:* the unreversed receivable leaves FY2025-26 reserve interest income and reserve-fund reporting dependent on how subsequent interest receipts were applied — its continued recognition requires documentary support demonstrating that the receivable remained valid and that receipts were properly applied — and the omitted property-tax accrual understates the year's expense; both distort the baselines from which the budget's reserve and tax figures are derived. *Require:* the December 2025 REV AUDIT journal detail matched to each FY2024-25 audit adjusting entry (Appendix D); the basis for not reversing the Accrued Interest Receivable and its disposition through June 30, 2026 and year-end; the support for the omitted property-tax accrual; and the written basis for the market-value carrying policy for reserve investments. (Detailed Analysis §D-10; Exhibit D.)

2. The monthly books are not maintained on the audit's basis of accounting. The $21.9M reserve investment portfolio (per the Association's financial statements as of 6/30/2026) — certificates of deposit, money-market funds, and reserve cash — holds roughly $18.2M in certificates of deposit that are carried at market value on the monthly books and corrected to held-to-maturity amortized cost by the auditor every year, so unrealized gains and losses flow through Reserve Interest Income during the year and are stripped out only at year-end. As a result, the Reserve Interest Income account contains (1) actual earned interest and (2) unrealized market-value adjustments recorded under management's bookkeeping. As of June 30, 2026, that market-value component is an unrealized *loss* of $90,947.86, already recorded in the account and reducing reported reserve interest income by that amount; if the investments are reported at amortized cost, a year-end adjusting entry would eliminate the unrealized loss and increase reported Reserve Interest Income by $90,947.86. This is a market-value basis problem, distinct from the unreversed Accrued Interest Receivable addressed in Finding 1.

The budgeting consequence is concrete, and the prior cycle shows it in dollars. The FY2024-25 proposed budget presented reserve funding against the Reserve Study's recommendation of approximately $2.3 million as approximately $1.0 million of cash contribution plus approximately $1.3 million of projected reserve interest, thereby treating the Reserve Study's recommended funding level as satisfied. Of that projected reserve interest, approximately $436,203 represented unrealized market-value gains recorded under the monthly bookkeeping for certificates of deposit intended to be held to maturity, rather than recurring earned investment income. Because those unrealized gains were temporary valuation adjustments, the proposed budget correspondingly overstated projected reserve interest, understated the reserve-interest shortfall, and overstated the apparent ability to satisfy the Reserve Study's recommended funding level. When the unrealized gains subsequently reset to zero as the certificates matured and were corrected to amortized cost, the Association recorded the significant unfavorable reserve-interest variance reflected in the following budget cycle — a variance the Board was subsequently unable to explain, and a consequence consistent with budgeting unrealized market-value gains as though they were recurring reserve interest. The same market-value bookkeeping remains in place for FY2026-27.

Why it matters: the monthly accounting records the Board relies on all year differ materially from the audited accounting basis, yet those records became the foundation for the proposed budget; reserve-funding decisions were therefore made using reserve-interest projections that included unrealized market-value gains rather than recurring earned income, which materially affected the Board's evaluation of whether reserve funding was adequate to meet the Reserve Study's recommendation. This also raises questions under ICPA §18.10 (GAAP records for 100+ unit associations) and 68 Ill. Adm. Code Part 1445 (manager bookkeeping and conduct standards). *Require:* the Association's written accounting basis and investment policy, confirmation of how the records satisfy §18.10, and a reconciliation of budgeted reserve interest to earned interest that isolates unrealized market-value gains. (Detailed Analysis §D-10; Exhibit D.)

3. The $973,400 reserve funding reduction raises substantial compliance questions under the Declaration and the Illinois Condominium Property Act. The Declaration mandates reasonable reserves for capital expenditures and deferred maintenance (Article VI, §1), and it permits waiver only "in whole or in part [by] a vote of 2/3 of the total votes of the Association," disclosed in the financial statements and in bold in §22.1 responses — the same bar §9(c)(3)–(4) sets. The funding level was set by the Finance Committee; no owner vote is known and no disclosure was made, so the reduction satisfies neither the Declaration's own §1 waiver provision nor the statute, and does not meet the Declaration's mandatory reserve requirement. Because no valid, disclosed waiver exists, the §9(c)(4) liability shield for directors and the managing agent is unavailable, and the budget does not disclose the underfunding on its face. *Why it matters:* the single most consequential number in the budget was set by the wrong body, below the "reasonable reserves" standard the Declaration itself commands. *Require:* the Declaration's Article VI §1 reserve and waiver provisions, any owner vote, and specimen §22.1 disclosures. (Detailed Analysis §D-6; Exhibit E.)

4. The reserve waiver creates a warrantability failure on a fixed schedule. Effective August 3, 2026 — fourteen days before the vote — Fannie Mae LL-2026-03 / Freddie Mac Bulletin 2026-C subject the project to Full Review, and a contribution below the study's highest recommended allocation fails the reserve test by the waiver amount ($973,400, dollar for dollar); a 15%-of-assessment-income floor takes effect January 4, 2027, which the contribution misses by roughly $21,000 — a shortfall closable for approximately 0.2% of assessment income; and the 2022 study's age forecloses the study alternative. *Why it matters:* the consequence is impaired conventional financing and refinancing for every unit, with depressed values building-wide. *Require:* the Association's LL-2026-03 compliance plan and the status of an updated reserve study. (Detailed Analysis §D-6; Exhibit E.)

5. The budget presents an operating surplus atop a reserve waiver atop a current-year shortfall. The assessment side is budgeted to a $472,489 surplus while $973,400 of reserves are waived for affordability, and the current year is projected to end in a $39,137 deficit that feeds the Declaration's mandatory shortage adjustment at the calendar-year accounting due April 1, 2027 — undisclosed in the package. A $521,800 insurance reduction more than funds both the $460,000 reserve-contribution increase and the entire net surplus, so the reserve improvement and the operating balance alike rest on a single year's insurance result whose durability the record does not establish (the renewal packet includes an AFM Successive Renewal Agreement guaranteeing next-year pricing if the combined three-year loss ratio remains below 60%; that conditionally documents next-year pricing only, and satisfaction of the condition is not shown in the records reviewed) (§D-5). *Why it matters:* the three postures are internally inconsistent, and the surplus alone would close nearly half the waived reserve amount. The package's own current-year actuals compound the problem: they overstate revenue by approximately $325,000 by double-counting the segregated cable and internet charges, converting the projected current-year deficit into an apparent surplus (§D-11). *Require:* the shortfall computation, the year-end accounting delivery history, and the anti-profit / Revenue Ruling 70-604 analysis for the surplus. (Detailed Analysis §D-6, §D-11.)

6. Roughly 28% of the budget — payroll, benefits, and management compensation — is presented without a workforce plan. There is no FTE roster, shift-coverage model, overtime assumption, or staffing benchmark; the Association's union employees and the management company's contracted personnel are commingled without totaling either. The general ledger shows that Sudler's total management-office cost is distributed across **three separate budget sections**, which is why it is invisible in the major-category summaries the Board receives. The **Administrative section** carries office salaries and payroll (the wage component for management office staff). The **Payroll Taxes and Fringes section** carries the associated employer burden: account 4400 — Payroll Taxes (employer FICA reimbursements labeled "FICA TAX REIMB," commingled with union payroll-period entries in the same account), account 4420 — Unemployment Tax (SUTA and FUTA reimbursements, similarly commingled with union entries), and account 4600 — Health Insurance (Non-Union) (Sudler health insurance reimbursements). The **Insurance section** carries the workers' compensation attributable to those staff, who are covered under the Association's workers' compensation policy — the dedicated payroll-fringe line for it (account 4710) is not used, so the cost is booked in Insurance rather than with the rest of the burden. The Association's proposed budget is a single column and makes no assessment/ancillary allocation, so the ancillary cost of this management-office payroll is invisible in it. The author's Exhibit A supplies that allocation on the Association's own Form 1120-H basis, carrying the *full* management-office personnel reimbursement package — reimbursed salaries and wages, bonus, and the associated reimbursed payroll taxes, unemployment tax, and health insurance — to ancillary at 56.0% (the burden follows the payroll), which is what surfaces the ancillary cost the budget omits. The management agreement (§2.6–2.7) makes the Association bear that fully-burdened cost, and because the tax return itself attributes 56.0% of the management-office payroll to ancillary operations — its management-office and investment-management functions together — allocating the burden with the wages is what that allocation basis requires; the budget's single-column presentation, which spreads the cost across three category sections, is what keeps it from the Board's view. *Why it matters:* the largest category is assembled by adjustment rather than built from a plan, and the resulting under-budgeting produced the current-year deficit. *Require:* a position-by-position schedule separating the two workforces, the 4600 assumptions, and the employer-tax treatment of contracted staff. (Detailed Analysis §D-1; Exhibit B.)

7. The management bonus has not been separately presented for Board approval, and Sudler approved its own employee bonuses. The $28,000 bonus pool — up from $1,261 in FY2010-11 and now a permanent annual allocation — is awarded "at discretion of management after annual evaluation" to Sudler's own personnel. A review of Board packets, meeting minutes, and Board meeting videos from 2016 through the FY2025-26 cycle shows that both the Board and the owners received the budget by major category each July, with office salaries, raises, and bonuses aggregated in General and Administrative rather than disclosed as separate line items. The July 20, 2026 Board packet departs from that practice: it discloses the budget detail for each revenue and expense account, including management salaries and bonuses. Disclosure is not approval, and the authorization question is unchanged. The records reviewed reflect that the Board approved the annual operating budget as a whole; management compensation and the annual bonus pool were not presented as separately identifiable components of the proposed budget, and no contemporaneous Board record was identified documenting separate Board consideration, deliberation, review, or approval of those components. The detailed general ledger contains at least one entry indicating that the bonus approval was made by Sudler Management rather than by the Board — a contemporaneous record that the Association funded a bonus Sudler approved for its own employees, with no documented Board action. No written Board policy, documented performance criteria, or formal Board approval process governing these bonuses was identified. The management agreement (§2.6) authorizes reimbursement of salaries, taxes, and personnel expenses but does not expressly address bonus or incentive compensation; §13 permits no further charge "except as otherwise expressly provided… or approved by the Board, in writing." *Why it matters:* if the bonus is charged separately from §2.6 reimbursables, §13 requires express agreement language or written Board approval — neither of which is documented. The report makes no finding of breach; the authorization must be produced and the Board must be separately presented with this item for deliberate approval. *Require:* the bonus history, performance criteria, written Board approval, compensation schedule, invoices, payroll support, and any contract amendment authorizing the reimbursement. (Detailed Analysis §D-1.)

8. Lease revenue and a below-market related lease cannot be verified from the budget. The manager's apartment carries a rent unchanged since at least 2/1/2024 and a 0% increase assumed upon its 2/1/2027 renewal — a renewal the budget presupposes, five months inside the budget year — with the below-market tells the Engineer's Unit history already taught the

Association; and the Hancock Market percentage-rent revenue is unverifiable because the tenant's required annual gross-sales disclosures have not been produced. *Why it matters:* both the manager's apartment (whose components also belong in the reserve study) and the commercial lease are carried on management's word. *Require:* the leases, renewal history, a market-rent benchmark, and the tenant's gross-sales certifications with a billed-to-collected reconciliation. (Detailed Analysis §D-8.)

9. The late-fee account no longer measures late fees, and it now carries the Association's fine income. The Association's accounting records reflect $42,500 of late-fee assessments and $24,500 of late-fee credits, waivers, and write-offs during the period March 2025 through February 2026, representing the dollar-equivalent of 98 standard $250 late-fee adjustments; the Board records reviewed documented only one Board-approved waiver, totaling $250. This does not establish that the remaining adjustments lacked authority, only that the records reviewed did not identify Board documentation supporting them — raising significant questions regarding authorization, delegated authority, internal controls, and the consistent application of the Association's collection policies. These figures were developed from a month-by-month reconstruction of the accounting records (Companion Working Paper WP-LF-1). The account's recorded balance reflects more than late fees: alongside the assessed fees and the reductions against them, account 3830 carries recurring credits and fine revenue posted or reclassified from Miscellaneous Income (account 3990), so its net activity is not a clean measure of late-fee revenue alone. The budget worksheets corroborate the migration: Miscellaneous Income is projected at $6,400 against a $20,000 budget, while late fees are projected at $35,300 with $26,500 booked to date.

Why it matters: The proposed budget carries $32,000 of recurring late-fee revenue even though the reconstructed accounting records indicate that recurring credits and waivers substantially reduce net collections. The Late Fee account therefore no longer provides a reliable basis for forecasting future late-fee income.

In addition, because fine revenue is now being posted or reclassified into the Late Fee account, neither reported late-fee revenue nor fine revenue can be independently evaluated without transaction-level accounting records. Taken together, these conditions substantially reduce the reliability of historical late-fee collections as a predictor of future late-fee revenue for budgeting purposes.

Require: the transaction-level general-ledger activity for account 3830, the entries posting and/or reclassifying fines out of Miscellaneous Income, the Board-adopted late-fee policy, any Board authorization for the purported SNAPP late-fee waiver practice (which the Rules and Regulations do not provide), and the late-fee billings and waivers reconciling the net figures to the fees assessed. (Detailed Analysis §D-8.)

10. A mid-year switch to flat per-unit cable/internet billing charges 703 legal units for 645 connections. Effective January 1, 2026 (after the first four months of FY2025-26) the Association segregated cable and internet from assessments and began charging a flat monthly fee per service, billed per legal unit while the providers invoice for ~645 active connections — so owners of combined units pay two to ten fees for a single connection at no additional Association cost. The FY2026-27 proposed budget correctly carries this segregation into separate revenue lines; its FY2025-26 comparative, however, double-counts the segregated amounts — leaving them in the combined assessment figure while also presenting them as separate revenue lines — overstating current-year revenue by approximately $325,000 (§D-11). *Why it matters:* materially different charges for substantially identical service; and because the change took effect a third of the way through the year, the YTD actuals blend two billing methods and are not a clean run-rate. *Require:* the provider invoices, the billing roster, and a Board evaluation of per-residence allocation. (Detailed Analysis §D-8.)

11. The Association's return preparers applied materially different Form 1120-H methodologies — and the budget would carry the inconsistency forward. The Association's two return preparers applied materially different methodologies for identifying nonexempt income and allocating deductions under Form 1120-H: the filings diverge on Unit Charges, operating Interest Income, Sale & Lease Processing Fees, Moving Fees, Miscellaneous Income, the Hancock Market deductions, and the JHC 44th Floor Lease deductions. Reporting differences of that breadth are evidence that the Association has lacked a consistently applied tax methodology — the operative question is comparability, consistency, and reliability, not whether either preparer's individual allocation decisions were defensible. *Why it matters:* the budget's assessment/ancillary columns make the same classification judgments the returns make, so adopting the budget as columned would embed one preparer's methodology — on items where the Association's own filings diverge — into the Association's official financial plan, while Exhibit A and Exhibit H apply one account-level methodology consistently throughout. *Require:* adoption of the corrected exempt-function classification per Exhibit C, applied on a single documented methodology. (Detailed Analysis §D-9; Exhibit C.)

12. The budget-adoption disclosure omits the statutorily required per-unit schedule. Owners must receive, at least 25 days before adoption, a budget indicating with particularity each unit's anticipated assessments and other anticipated income; the Association has consistently omitted it. *Why it matters:* the per-unit schedule is the reconciliation device that would have caught several documented errors, and its omission arguably never starts the 25-day clock. *Require:* distribution of a compliant per-unit budget, with proof of delivery. (Detailed Analysis §D-12; Exhibit F.)

13. The operating-fund target has been frozen since at least 2009. The ~$1.425M target, in place since at least 2009, is effectively unchanged; at 2.25 months of current operating revenue the equivalent would be approximately $2,050,421, a $625,420.50 erosion against the Board's own standard (a deferred assessment increase of ~6.41%, comparable to the reserve waiver's 9.97%), even as the current year is projected to draw the fund down further. *Why it matters:* the Board is measuring liquidity against a standard that inflation has hollowed out. *Require:* the resolution establishing the target and a current reassessment of the liquidity objective. (Detailed Analysis §D-11.)

14. The Association reports several items on a net basis where GAAP requires gross. A revenue stream and the expense it funds are collapsed into a single reported line in at least three places — the real-estate-tax-attorney special assessment (netted to a nominal $100; §D-7), the Holiday Fund (netted to $0; §D-15), and moving fees, where the related moving-fee expense payable to the commercial owner is netted against the fee revenue rather than reported gross (account 3930; §D-15) — which U.S. GAAP prohibits. Under Illinois law the Declaration is a contract between the Association and its members, so ASC 606 applies and the Association, as principal, must report gross. A separate and genuinely unsettled question — whether unspent reserve assessments must be carried as deferred revenue rather than in fund balance — is treated here as a revenue-recognition policy and disclosure matter, not a definitive departure. *Why it matters:* net presentation removes real revenue and expense from the statements the Board and owners rely on and defeats budget-to-actual comparison. *Require:* the written revenue-recognition and presentation policy and the auditor's confirmation of the accounting basis. (Detailed Analysis §D-15; §D-7.)

15. A voluntary Holiday Fund is run off the Association's books by its Holiday Fund Committee and management, and the Association advanced $5,000 to it without Board authorization. Owners contribute voluntarily to a year-end staff fund administered by the Holiday Fund Committee — including the President, the Treasurer, the Committee's remaining members, and management — with the activity reported net at $0. The records show that in 2020, when the fund's bank account was overdrawn, the then-President and then-Treasurer directed that approximately $5,000 of Association funds be advanced to cover it — with no Board vote and no repayment reflected in the records provided. The off-books cash arrangement is at minimum a significant deficiency in internal control and a management-override / fraud-risk condition (AU-C 265, AU-C 240), and the voluntary collections are taxable non-exempt income under IRC §528 with nondeductible disbursements. This report makes no finding on the merits of the pending *Mattis* litigation (2026 CH 04843). *Why it matters:* the $0 presentation left an unauthorized, unrecorded, and apparently unrepaid advance of owners' funds and a taxable-income exposure off the face of the statements, and omits the collected/disbursed/held record entirely. *Require:* the fund's classification and ledger, the 2020 advance documentation and any authorization, and the §528 analysis. (Detailed Analysis §D-15.)

16. The budget presents ancillary operations only in aggregate, so the Board cannot see each operation's net result — or whether its losses are deductible — before it votes. The FY2026-27 budget shows the ancillary (nonexempt) segment as a single total — $851,557 of revenue against $1,303,908 of expense, a $452,351 loss — with no breakout of the individual operations (laundry, storage, keys, and the Hancock Market and Club 44 leased spaces, among others). Several of these are member conveniences priced below cost by design and run at sustained structural losses on the face of the underlying lease and cost obligations; under the analysis of Portland Golf Club v. Commissioner and Concord Consumers Housing Cooperative v. Commissioner, as this report reads those authorities, losses from activities lacking a genuine profit motive cannot shelter the Association's taxable reserve-interest income, so presenting them only in aggregate bears on the Association's federal tax exposure as well as its transparency. *Why it matters:* without each operation's revenues, direct costs, allocated overhead, and resulting profit or loss, the Board cannot tell which activities carry the loss, whether any is subsidized by assessments, or whether the ancillary losses are deductible at all — yet it is being asked to adopt the segment blind. *Require:* a per-operation profit-and-loss schedule for each ancillary activity, showing its revenues, directly-connected costs, allocated overhead, and resulting profit or loss — the overhead allocation is essential, because profitability cannot be evaluated without it — sufficient to evaluate profit motive and Form 1120-H exposure. (Detailed Analysis §D-8; §D-4; §D-14.)

17. The assessment methodology is documented — and the proposed budget implements a January 2027 increase at one and one-half times the monthly depth of the Declaration's twelve-installment structure. The proposed annual assessment of $10,007,019 holds September–December 2026 at the current $813,578.75 per month and sets January 2027 at $844,088.00, so that the remaining eight months recover the full annual change: a January step of $30,509.25 per month, or 3.750%. The annual change recovered is $244,074 — 2.500% measured on a consistent basis, twelve months at the current monthly assessment. Exhibit H separately prints a 1.926% budget-over-budget change for the assessment account; the bases are reconciled at §D-11. Spread across the twelve equal installments Article VI, §1 describes, the same $244,074 change would be $20,339.50 per month — the January step is exactly one and one-half times that depth, and in a change year no monthly installment equals one-twelfth of the adopted annual assessment. *Why it matters:* combined with the 9.97% deferred increase embedded in the reserve waiver, the methodology determines how steeply every deferred cost — including the increases the documented reserve-funding deferral defers rather than avoids (Finding 3; §D-6; Exhibit E) — eventually lands on owners' monthly statements. *Require:* reconciliation of the assessment methodology to Article VI, §1's installment provision, disclosure of the methodology to owners, and the Board's explanation of the calculation basis before adoption. (Detailed Analysis §D-11.)

Roadmap — Board Actions Before Adoption

The ten steps below translate the findings of this report into the sequence of actions the Board should complete before adopting the FY2026-27 budget. Each is specific, correctable within the pre-adoption window, and cross-referenced to the supporting analysis. The consolidated documentation the Board should request to accomplish them is assembled in Exhibit F.

1. Restate the year-to-date financial statements. Direct management to reissue the FY2025-26 year-to-date actuals and projections on a reversed, conformed basis, so the figures the budget is built from no longer double-count the prior year's income and expense. (Key Findings 1–2; Detailed Analysis §D-10.)

2. Correct the accounting baseline. Require a written statement of the accounting basis used for the monthly Board financials and confirmation that the reserve investment portfolio and routine accruals are carried consistently with the audited basis — the recurring, retroactive year-end correction should stop, not repeat. (Key Findings 1–2; Detailed Analysis §D-10.)

3. Resolve the reserve-funding decision. Place the reserve waiver before the body with authority to make it — the owners — rather than the Finance Committee, and obtain the Association's secondary-market compliance plan and reserve-study status before relying on the current contribution level. (Key Findings 3–4; Detailed Analysis §D-6; Exhibit E.)

4. Produce the missing workforce plan. Require a position-by-position schedule separating the Association's union employees from the management company's contracted personnel, with the all-in cost of each workforce, the account 4600 assumptions, and the employer-payroll-tax treatment of contracted staff. (Key Findings 6–7; Detailed Analysis §D-1; Exhibit B.)

5. Correct the exempt-function budget classifications. Adopt the corrected assessment/ancillary column placements so the budget rests on one consistently applied exempt/nonexempt methodology, rather than perpetuating the materially different Form 1120-H methodologies the Association's two return preparers have applied. (Key Finding 11; Detailed Analysis §D-9; Exhibit C.)

6. Issue a compliant per-unit assessment schedule. Distribute to owners a proposed budget indicating with particularity each unit's anticipated assessments and other anticipated income, with proof of delivery — both to satisfy the statute, which requires that distribution at least 25 days before the adoption meeting, and to force the reconciliation that catches classification and arithmetic errors. (Key Finding 12; Detailed Analysis §D-12; Exhibit F.)

7. Reset the operating-fund / working-capital target. The ~$1.425M target has been frozen since at least 2009; at 2.25 months of current operating revenue the equivalent is approximately $2,050,421 — a $625,420.50 erosion. Direct that the target be re-established against current expenditures rather than a figure inflation has hollowed out. (Key Finding 13; Detailed Analysis §D-11.)

8. Provide for credit losses and income taxes. Budget a provision for uncollectible assessments — the line is currently $0 against real delinquency — and obtain the federal tax-election analysis (Form 1120 versus 1120-H) together with a provision for the income tax the budget will owe on its non-exempt income, currently carried as a reserve expenditure ($110,728 federal and $15,000 state) rather than as an operating cost. (Detailed Analysis §D-7, §D-14.)

9. Obtain per-operation ancillary detail. Require a profit-and-loss schedule for each ancillary operation, so the Board can see which activities carry the loss and whether those losses are deductible before adopting the segment. (Key Finding 16; Detailed Analysis §D-8; §D-4.)

10. Defer budget adoption until these items are complete. Because the deficiencies above go to the reliability of the numbers, the authority behind the reserve decision, and the sufficiency of owner disclosure, the Board should defer the adoption vote until steps 1–9 are complete — at which point it will have a reliable basis on which to evaluate and approve the budget. (Executive Summary; Key Finding 5.)

Five-Year Financial Narrative

Before turning to the detailed findings, this narrative describes the financial trajectory those findings, read together, reveal. The sections that follow examine each subject on its own; the purpose here is the opposite — to show how the Association's financial elements moved together over the period reviewed. Read that way, the record describes a single trajectory rather than a set of separate problems, and its defining feature is the steady erosion of the operating cushion that once absorbed the gap between what the Association collected and what it spent.

Across the period, expenses grew substantially faster than income, and the operating surplus absorbed the entire difference. What had been an operating surplus of $1,166,717 at the start of the period fell, year after year, to $2,723 by its end — essentially break-even. That erosion is the single most important fact in the Association's recent financial history, because the operating surplus was never merely a comfortable margin: it was doing structural work elsewhere in the budget.

Reserve funding is the clearest example. For years the Association's reserve contribution fell short of the amount its own study recommended, and the shortfall was closed less by the budgeted cash contribution than by the operating surplus flowing into reserves at year-end. That arrangement worked only so long as the surplus existed. As it thinned toward zero, the mechanism that had kept reserves closer to target disappeared — yet the budget continues to waive a large share of the recommended reserve contribution on affordability grounds. The consequence is a widening reserve shortfall at the very moment the Association has lost the surplus that used to offset it, alongside a long-term replacement obligation that grows while current funding is deferred.

That tension — comfort now, obligation later — runs through the whole budget. On its face the proposed budget presents a modest surplus and an orderly picture. Beneath it sit a reserve position funded well below the recommended level, a substantial block of high-priority replacement work scheduled beyond the reserve study's own horizon, and a projected current-year operating deficit. The near-term figures look healthier than the long-term trajectory they rest on, and the distance between the two is the real subject of this review.

Liquidity is where these pressures converge. The Association's operating-fund target has been held effectively flat for well over a decade even as operating costs climbed, so the cushion available to absorb a difficult month has thinned in real terms. Two developments now press on that thinner cushion at once. The current year is projected to end in deficit, which under the governing documents triggers a mandatory shortage assessment — a call on liquidity precisely when liquidity is weakest. And the year's insurance renewal, while it lowered the premium and eased the operating budget, appears to have done so at least in part by shifting risk back onto the Association through higher deductibles and retentions. A lower premium that raises the deductible does not remove cost; it converts a predictable, budgeted expense into an unpredictable one that must be met from working capital when a loss occurs. The premium relief and the liquidity strain therefore pull in opposite directions, and both land on the same fund.

The Association's ancillary operations compound that pressure rather than relieve it. Taken as a whole, the nonexempt activities run at a net loss, and because they do, they do not lighten the assessment burden — they add to it. Operations often assumed to be self-supporting, or even to subsidize owners, instead draw on assessment revenue to cover their shortfall, so the true assessment requirement is higher than the operating budget's headline suggests.

Investment income and its tax consequences form a similar pairing. Reserve interest is the Association's principal source of taxable income, so the same earnings intended to help fund reserves also generate a recurring federal tax liability payable from those reserves. The Association has not consistently acted to minimize that liability, and the budget provides for it as a reserve expenditure rather than as an operating cost. The reserve balance is thus taxed on one side while being underfunded on the other, and the amount actually available for capital work is smaller than the reserve-interest line, read alone, would suggest.

Placed side by side, these relationships describe a coherent trajectory. An operating surplus that once backstopped reserves has been consumed by cost growth; the liquidity cushion has been held flat while costs rose; reserve obligations have been deferred rather than funded; retained insurance risk has been added to a thinner cushion; and a loss-making ancillary segment and a tax liability charged against reserves rather than operations raise the real cost of operations — all while the near-term budget presents the result as a surplus. Each element is examined in detail in the sections that follow. Read together, they point the same way: absent correction, the cost of the Association's deferred obligations is being carried forward to future budgets and, through assessments and shortage adjustments, to the owners who will ultimately fund them.

Detailed Analysis

The subsections below (D-1 through D-16) supply the supporting evidence for the Key Findings, organized by budget category and then by cross-cutting accounting, governance, and disclosure matters. Each subsection carries its own line-item detail and, where applicable, the specific documents the Board should request. Dollar figures reconcile to the consolidated budget summarized in Exhibit A.

D-1. Payroll, benefits, management compensation & taxes — $3,011,292 (27.5% of total operating revenue; 30.1% of assessment income)

Workforce cost, the two-workforce structure, and the burden allocation

Components: salaries $1,800,000 (+16.4%), payroll taxes and fringes $801,767 (+3.7%), office staff $381,525 (−3.7%), and staff bonus $28,000 (flat). The full workforce cost reconciles as follows (Exhibit B):

Line	FY 2026-27
Janitors (4070)	$1,016,500
Door staff (4100)	$377,400
Receiving room (4160)	$175,000
Part-time relief (4190)	$110,000
Painter (4220)	$121,100
Office staff (8050)	$381,525
Staff bonuses (8060)	$28,000
FICA (4400)	$166,900
Unemployment taxes (4420)	$9,096
Health insurance — non-union (4600)	$62,514
Union benefits (4620/4630/4650)	$533,757
Uniforms — purchases (4810) and rental (4820)	$29,500
Total workforce cost (excludes workers' compensation insurance, carried in account 8700)	**$3,011,292 (27.537% of total operating revenue)**

Two workforces, one blur. The category commingles two distinct workforces without ever totaling the cost of either. The first is the *Association's own employees*: the union workforce (janitors, door, receiving, painter) employed directly, whose benefits are carried in the Union Benefits accounts. The second is *contracted management personnel*: the office staff employed by Sudler, whose compensation is reflected across multiple personnel-related accounts — including account 8050 (office staff), payroll taxes, unemployment insurance, employee benefits, and related personnel costs — rather than presented as a single all-in workforce cost. The Association employs no non-union staff directly. The budget presents neither workforce's all-in cost, and the reader cannot tell from the face of the document which people work for the Association and which work for its vendor.

Account 4600 — Health Insurance (Non-Union): appears to include management reimbursement; corrected allocation applied, precise split pending records. Account 4600 appears to include the reimbursement of Sudler health-insurance costs for management office staff, consistent with the §2.6 reimbursement structure, although the account may also include additional management-company charges that cannot presently be identified from the available records. The label "Non-Union" is technically accurate (the covered personnel are not Association union employees) but does not make visible to the Board that this is a management-company cost rather than a benefit for Association employees. Two concerns remain. *Column allocation:* in the Association's own budget this account is presented in a single, unsplit column, alongside accounts 4400 (Payroll Taxes) and 4420 (Unemployment Tax) — all three carrying Sudler reimbursements (FICA TAX REIMB, SUTA TAX REIMB, FUTA TAX REIMB) commingled with union payroll-period entries in the same accounts, with no within-account separation by workforce. The defect is wholly in the Association's column placement: because the tax return attributes approximately 56.0% of the management-office payroll to ancillary operations (its management-office and investment-management functions together), a corresponding share of these employer costs belongs in the ancillary column rather than remaining unallocated. CIA's corrected presentation (Exhibit A) applies that reallocation — the health insurance (4600) and employer FICA (4400) on the wage-allocation percentage, and the unemployment tax (4420) on an equivalent-headcount basis — which is part of what deepens the ancillary loss to $452,351 (§D-1 above). What remains unresolved is not whether to allocate but the precise amount: because the management and union costs are commingled within these accounts, the corrected splits are best-available estimates, and the exact figures cannot be confirmed from budget totals alone — they require the general-ledger detail separating the two workforces that the demand at Exhibit F seeks. *Magnitude without drivers:* $62,514 is **+18.1% over the $52,940 current budget and +31.4% over the $47,574 current-year projection** — a material increase with no disclosed driver (premium increase, added headcount, plan design change, or employer/employee cost-share shift). The covered-employee count, employer contribution percentage, and aggregate employee contributions are absent from the budget package.

The true management-office cost, assembled from its scattered parts: office staff $381,525 + staff bonuses $28,000 + non-union health insurance $62,514 + management fee $93,504 (the separate contractual management fee under the Agreement, distinct from the reimbursement of the on-site management-office personnel; booked in "Other") = **$565,543 before employer payroll taxes on the office staff (management staff are contracted, not Association employees)** — against the $93,504 "management fee" line that is the only number labeled as management cost in the presentation. The Agreement treats these as two distinct compensation streams: under §2.6 the Association reimburses the Agent for the on-site management-office personnel's actual salaries, payroll taxes, and employee benefits (including health, life, and disability insurance and other Personnel Expenses) and their reimbursable job-related expenses, while the management fee is a separate contractual charge — and under §2.3, "except as set forth in the Budget, all overhead, and other expenses of Agent, shall be the sole cost of Agent." The $93,504 fee accordingly does not include the personnel cost of the management office, which is dispersed across the accounts above. True administrative compensation is correspondingly understated wherever it is quoted from the fringe-pool grouping. The allocation compounds the opacity: applying the Association's own return basis at the account level (Exhibit A), $213,654 of the office staff

(56.0%), $15,680 of the bonus, and $52,362 of the management fee (56.0%) fall to the ancillary side — tracking the same 56.0% management-office allocation of these accounts the return applies, with the same missing usage basis. Whether that percentage is right is not something the produced records permit anyone — preparer, Board, or reviewer — to verify: no usage measurement supporting it has been produced, which is why the demand below seeks one and why Exhibit A applies the return's own basis consistently rather than substituting a different judgment.

These two observations answer different accounting questions, and the distinction matters. The workforce-cost figures above are analytical reconstructions of each workforce's complete annual cost, aggregating the personnel-related accounts that the budget disperses across multiple natural-expense categories; they are offered for transparency, so that directors and owners can see the all-in economic cost of each workforce. That reconstruction is independent of, and does not alter, replace, or re-compute, the Association's allocation of those same costs between assessment (exempt-function) and ancillary (non-exempt) operations, which serves budgeting and tax purposes. Whether that allocation is itself supportable is a separate question, addressed on its own terms in this analysis.

The management agreement makes the Association bear the fully-burdened cost of the management-office staff — so the employer payroll taxes and benefits must be allocated to ancillary operations alongside the wages, and are not. The office staff are legally Sudler's employees: under §2.6 of the management agreement (Appendix B), "the on-site manager and management office personnel shall be employees of Agent," and Sudler files the payroll-tax returns, remits FICA/FUTA/withholding, and issues the W-2s. But the same section makes the Association *economically* responsible for essentially all of their employment cost: the Agent is to be reimbursed for "all actual, out-of-pocket salaries, taxes, and other expenses payable on account of such staff," and §2.7 requires Sudler to perform the employer payroll-compliance functions (FICA, FUTA, federal and Illinois income-tax requirements, union benefit contributions) on the Association's behalf. Delegation of these functions does not relocate the underlying responsibility: under Article V, §7 of the Declaration the Board retains the power and duty to keep accurate financial records, engage accountants, and contract for services — so the budget and the records supporting it remain the Board's responsibility even where their preparation is delegated to the managing agent. That language is broad enough to place on the Association, at a minimum, the gross salaries, the employer share of Social Security and Medicare, federal and Illinois unemployment taxes, workers' compensation allocable to those employees, health/life/disability insurance, any retirement benefits, continuing education, professional licenses, and normal job-related reimbursements. The FICA line reflects this: account 4400 is budgeted at $166,900, which at the 7.65% employer rate implies an approximately $2,182,000 covered-wage base — the $1,800,000 of direct union wages plus the $381,525 of management-office wages. So the ~$29,200 of employer FICA on the office staff (7.65% × $381,525) is *correctly* the Association's cost under the contract; it is not an error and not, standing alone, a double-count.

The forensic point is what follows from that. Because the Association bears the *fully-burdened* employment cost of the management-office staff — wages *and* the associated employer taxes and benefits — the burden must be allocated to residential and ancillary operations on the same basis as the wages it attaches to. The Association's own tax return attributes approximately 56.0% of the management-office payroll to the ancillary commercial operations, its management-office and investment-management functions together. Whether either preparer's allocation percentage was individually correct is not the operative question — consistency is. On any wage allocation, the associated employer burden — FICA and Medicare, unemployment taxes, health insurance, and the other elements of the payroll burden — attaches to the same payroll and follows it. The Association's filings have not treated it consistently: the most recent Form 1120-H allocates the reimbursed office-staff salaries and wages to the ancillary operations but does not allocate the associated employer burden with them — FICA (4400), unemployment (4420), non-union health insurance (4600, itself mislabeled and misplaced, see below), and the office staff's share of workers' compensation (carried in the Insurance section because the management-office personnel are covered under the Association's workers'-comp policy). The author's Exhibit A corrects that: it allocates the *full* management-office personnel reimbursement package — reimbursed salaries and wages, bonus, and the associated reimbursed payroll taxes, unemployment tax, and health insurance; workers' compensation is not reallocated because the available records do not identify how the premium is allocated among employee classifications, and reallocating it solely on gross salaries would require assumptions the records do not support — to ancillary at 56.0% (account 8050 splits to $167,871 assessment / $213,654 ancillary), so the burden follows the payroll it attaches to. The consequence is a systematic misstatement in one direction: **the true cost of the ancillary operations is understated, and the cost borne by the residential members is overstated**, by the ancillary share of the payroll burden that has been left behind in the operating fund. This is the ancillary-profitability concern developed in §D-8: once the payroll taxes and benefits are allocated to ancillary on the same basis as the wages they burden — as the corrected presentation does (Exhibit A) — the ancillary operations carry a $452,351 loss, roughly $64,700 deeper than the loss shown before that burden is allocated. Leaving the burden unallocated, as the Association's own return allocation does, understates the true cost of the ancillary operations and overstates the cost borne by the residential members by that amount; the Board should adopt the corrected allocation and obtain the reconciliation showing the fully-burdened management-office cost and its residential/ancillary split.

Methodological limitation. Workers' compensation was not reallocated because the available records do not identify how the premium is allocated among employee classifications. Because workers' compensation premiums are generally based on employee classifications as well as payroll, reallocating the premium solely on gross salaries would require assumptions not supported by the available records.

Sudler's self-administered, Association-funded bonus program (Account 8060). Staff bonuses increased from **$1,261 in FY 2010-11 to $28,000 in FY 2022-23** — an increase of approximately **2,121%**. Although the amount has remained unchanged since FY 2022-23, the Association has effectively established $28,000 as a recurring annual management bonus allocation. What began as an extraordinary increase has become a permanent component of management compensation rather than a one-time adjustment.

Two classification facts frame the line. Under the ABOMA/SEIU Local 1 collective bargaining agreement, union employees do not receive employer-paid discretionary bonuses, so account 8060 is entirely management-office personnel compensation — employer-paid discretionary bonuses reimbursed under the management agreement and allocated with the office payroll they attach to (56.0% ancillary). The owner-funded Holiday Fund is a separate compensation mechanism of a different character: its distributions are funded by voluntary owner contributions rather than by the employer, do not arise under the management agreement, and are not employer-paid discretionary bonuses (Key Finding 15; §D-15). Neither payment mechanism is inherently improper. The deficiencies identified in this report concern the administration of the Holiday Fund — including its off-books operation, unauthorized advance of Association funds, net-basis presentation, and related internal control and tax reporting issues — not the existence of a voluntary owner-funded staff holiday fund itself (Key Finding 15; §D-15). Together, these two distinct compensation mechanisms define the variable compensation arrangements the Board should understand when evaluating management-office compensation.

Based on a review of Board packets, meeting minutes, and Board meeting videos from 2016 through the FY2025-26 cycle, in the Association's ordinary annual budgeting process directors were presented with budget summaries by major category — the July 20, 2026 Board packet being the documented departure, disclosing the detail for each revenue and expense account — and the costs of the contracted management-office workforce are distributed across several of those categories rather than presented as a single all-in workforce cost: office salaries and staff bonuses within General and Administrative; payroll taxes, unemployment insurance, and non-union employee health insurance within Payroll Taxes and Fringes; and workers' compensation insurance, where applicable, within the Insurance section. The records reviewed reflect that the Board approved the annual operating budget as a whole, and the report does not contend otherwise. Within that budget, management compensation and the annual bonus pool were not presented as separately identifiable components of the proposed budget. The bonus pool, in particular, was not presented as its own budget line item. No contemporaneous Board record was identified documenting separate Board consideration, deliberation, review, or approval of those components.

The governance concern is more significant than the amount itself. The budget states that bonuses are awarded "at discretion of management after annual evaluation." Because the recipients are Sudler employees rather than Association employees, Sudler evaluates its own employees, determines how the Association-funded bonus pool is allocated among those employees, and administers the bonus payments. The detailed general ledger contains at least one entry indicating that the bonus approval was made by Sudler Management rather than by the Board — a contemporaneous business record that the Association funded a bonus approved by the management company for its own employees, with no documented Board action. No written Board policy, documented performance criteria, or formal Board approval process governing these bonuses was identified during this review.

The management agreement is the appropriate reference point, and it is silent on this subject rather than prohibitive. Section 2.6 authorizes reimbursement of the office staff's salaries, taxes, insurance, certain employee benefits generally offered by Sudler, and other personnel expenses; it does not expressly address bonus or incentive compensation, and the report identified no contractual provision establishing when bonuses are payable, how they are calculated, whether they fall within reimbursable personnel expenses, or whether separate Board approval is required. The report accordingly makes *no finding* that the bonuses violate the agreement. One provision does bear directly on the question, however: Section 13 provides that no further charge shall be made "except as otherwise expressly provided in this Agreement or approved by the Board, in writing." If the $28,000 bonus is charged to the

Association *separately* from the §2.6 reimbursable salaries and personnel expenses, then under §13 the charge requires either express authorization elsewhere in the agreement or the Board's written approval — and whether either exists is a documents question, not an interpretive one. The Board should therefore obtain any written Board approvals, compensation schedules, invoices, payroll support, or contract amendments authorizing reimbursement of the approximately $28,000 in management bonuses included in the proposed budget, and satisfy itself that the charge rests on §2.6, on express agreement language, or on a §13 written approval — rather than assuming any of the three.

Management-office staff and the bonus

Office staff (8050) — budgeted below a known overrun. The line is budgeted at $381,525 — a 3.7% reduction from the $396,000 carried in the prior two budgets — while the current-year projection runs $412,268, a ~$31K gap with no explanation (the only roster clue in the detail is a note that two people overlapped for two months). Budgeting flat against a known run-rate above budget repeats the one-directional pattern documented across the sheet — and repeats, in miniature, exactly the mechanism that produced the current-year shortfall (§D-11).

Workforce planning and metrics

The workforce-plan gap. From the benefit schedules the workforce can be triangulated: 16 janitorial union members (acct 4620), 9 full-time plus 1 part-time door/receiving union members (acct 4630), 1 painter (acct 4650), and roughly four to five contracted office staff (accts 4600/8050), plus a part-time relief pool (acct 4190) — about 33 people. The problem is the asymmetry: the benefit accounts disclose headcount × rate × months, but the far larger base-wage accounts (4070 janitors, 4100 door, 4160 receiving) present only historical budget/actual and a flat monthly spread, with no buildup of positions, rates, hours, or overtime. You can see how many people are covered for benefits; you cannot see how the wages were built. §D-11 quantifies the consequence: the FY2025-26 budget understated the workforce cost, the overrun materialized, and the Declaration now routes it to owners as a mandatory shortage assessment.

No integrated workforce metrics. A budget of this size should present, and this one does not: total workforce cost per Unit (approximately $4,300 per Unit on a simple-average basis across approximately 700 Units); workforce cost as a share of assessment income (30.1% — nearly a third of every assessment dollar); the administrative-versus-maintenance payroll split (which the 4600 misclassification currently distorts); and staffing ratios against comparable Michigan Avenue high-rises. The absence of these metrics, together with the recurring pattern of manual overrides in place of any stated forecasting methodology (the 6505 override field, the electricity "between the two projections," the flat lines against known run rates), is the through-line: the largest category in the budget is assembled by adjustment, not built from a plan.

Building staff — line-item detail

Janitors (4070) — $1,016,500, up 28.7%. This is the single largest payroll line and the largest percentage increase in the category. It is +28.7% over the $790,000 budget, +18.9% over the $855,064 prior-year actual, and +13.1% over the $899,156 current-year projection. The detail attributes the increase to the ABOMA/SEIU Local 1 collective bargaining agreement (12/1/2024–11/30/2027) and a shift-differential change from 5% to 10%. Two contractual layers must be kept distinct. The December 1, 2025 increase is already reflected in the $899,156 current-year projection — it is embedded in the run rate from which the budget starts. The budget year will then carry the next scheduled contractual increase, effective December 1, 2026, together with any related contractual benefit changes, for nine of its twelve months — a real and known increment. The scheduled 2026 contractual increases do not, however, by themselves appear sufficient to explain a further 13.5% above the current-year run rate; the gap between the contractual step and the budgeted rise is what requires support. With 16 union heads, $1,016,500 implies ~$63,500 average wage per janitor — a figure that can only be tested against the agreement's rate schedule and the headcount, hours, and overtime assumptions the budget does not provide. The +28.7% is also evidence that the FY2025-26 line was under-budgeted — the under-budgeting now surfacing as the projected shortfall (§D-11). The split also allocates $142,310 of janitor wages and $41,630 of janitorial union benefits to the ancillary column — the Exhibit A application of the return's 14% "Janitorial Maintenance" allocation, likewise without a usage measurement.

Door staff (4100) — $377,400, up 4.1%. The detail notes "7 F.T. and 1 relief (currently have 6 full time)." Budgeting for 7 full-time while staffing 6 builds in roughly a $54K vacancy cushion. Is a hire planned, or is this a padded line? Receiving room (4160) $175,000 (+5.6%, 2 FT + 1 PT); part-time relief (4190) $110,000 (flat, but historically volatile — actuals have ranged $79K–$176K); painters (4220) $121,100 (+2.4%, 1 FT). FICA (4400) is $166,900 (+12.3%), built on an approximately $2,182,000 total payroll base at 7.65% — internally consistent as arithmetic, but see the employer-payroll-tax finding above regarding whose wages properly belong in that base.

Questions / document requests:

- A position-by-position workforce schedule separating Association union employees from contracted management personnel: title, employer, FTE count, base rate, budgeted hours, overtime assumption, shift differential, gross wage, employer taxes, benefits, and fully-loaded cost per position — with the total cost of each workforce — plus staffing ratios (staff per unit) against comparable high-rise associations.
- The fully-burdened cost of the management-office staff and its allocation: a schedule showing, for the office staff, gross wages plus all reimbursed employer payroll taxes and benefits (employer FICA/Medicare, FUTA, Illinois unemployment, workers' compensation, health/life/disability insurance, retirement, and other §2.6 reimbursables), and the residential/ancillary allocation of that total burden on the same basis as the wage allocation — confirming that the payroll taxes and benefits follow the 56.0% ancillary allocation the tax return applies to the wages, rather than remaining in the residential/assessment column; together with the account-8050 detail and the 4600 assumptions.

- The account 4600 assumptions schedule: covered-employee count, employer contribution percentage, aggregate employee contributions, and the specific drivers of the +18.1%/+31.4% increase (premium change, headcount, plan design, cost-share shift); confirmation of whose employees are covered and whether the coverage is billed to the Association at cost or with markup; and reclassification of the account to the administrative/management grouping.
- The bonus program record: the year-by-year bonus history from FY2010-11 forward, the basis for the increase from $1,261 to $28,000, the performance measures supporting the pool, and any Board-adopted compensation policy; together with the documents authorizing the charge under the management agreement — any written Board approval, compensation schedule, invoice, payroll support, or contract amendment authorizing reimbursement of the ~$28,000 bonus, and confirmation whether it is charged within §2.6 personnel expenses or as a separate charge subject to the §13 written-approval requirement.
- The ABOMA/SEIU Local 1 rate schedule and the calculation reconciling $1,016,500 to headcount × rate × hours, including whether the 12/1/2026 contractual increase and related benefit changes are assumed and for how many months, and the overtime dollars embedded.
- Confirmation of current vs. budgeted door-staff headcount (6 vs. 7) and the basis for the seventh position.
- The office-staff roster behind the $381,525, the explanation for budgeting below the $412,268 projection, and whether office staff are Sudler employees billed at cost or with markup.
- The usage measurement, if any, supporting the ancillary allocation of office staff (56.0%), bonus, janitor wages ($142,310), and janitorial benefits ($41,630), as carried from the return basis into Exhibit A.

D-2. Utilities — $1,775,000 (16.2%, +7.6%)

Electricity (5000) — $1,225,000, up 11.4%. The driver is the switch from Direct Energy to Freepoint (early 2026), with an AUS Energy estimate dated 5/8/2026. The detail's own bottom-up build totals $1,121,635 (ComEd delivery $546,845 + provider energy $574,790 at $0.06078/kWh), with a 120% variance ceiling of $1,345,962. The budget of $1,225,000 sits $103,365 *above* the bottom-up estimate — "between the two projections." That $103K cushion should be justified or trimmed — but the cushion cuts both ways. Electricity actuals reached $1,089,047 through June 30, 2026, ten months into the current fiscal year (§D-9), a pace that straight-lined exceeds the proposed $1,225,000 before July and August, the peak cooling months. Those actuals blend four months at the prior provider's rates with six at Freepoint's, so they do not cleanly predict a full year at $0.06078/kWh; the contract terms therefore determine whether the budget is overstated against the bottom-up build or understated against current experience.

Water (5200) $360,000 and chilled water (5230) $190,000 — both flat, both "billed through commercial management." This is the allocation-opacity issue in its clearest form. More than half the utility budget ($550,000) is tracked outside the HOA's own general ledger, through commercial management's separate program, and the HOA is presented a number it cannot independently verify. Water is budgeted at $360,000 for a third straight year while recent actuals run $333K–$353K and the current projection is $368,635; chilled-water actuals swing from $141K to $215K. Flat budgeting against volatile, externally-tracked usage is not the same as a verified allocation — and the year-end over-accruals the auditor removed (water $16,005.52; chilled water $33,105.47) are consistent with estimation rather than verification of the allocation.

A classification dimension compounds the opacity: Hancock Market utility charges may not always be consistently recorded within the Hancock Market operating account (6780). To the extent electricity or chilled water attributable to the leased space is carried in the general utility accounts, the utility budgets absorb commercial usage, the ancillary segment's true cost is understated, historical trend analysis is distorted, and management reporting cannot isolate the operation's cost. Supporting documentation is necessary to determine how the leased space's utilities are metered, allocated, and recorded (§D-4).

Questions / document requests:

- The Freepoint contract: rate, term, whether the $0.06078/kWh is locked, and the basis for budgeting $103,365 above the AUS bottom-up estimate.
- The commercial-management water and chilled-water allocation methodology, the underlying utility bills, and the HOA's allocated share with supporting meter data.
- Whether the engineer's-apartment electricity and any commercial common-area load are separately metered or allocated, and on what basis.

D-3. Contract services — $1,050,827 (9.6%, −2.2%)

The category is roughly flat in total, which masks large offsetting moves. **Elevator maintenance (6010) drops $118,087 (−23.5%)**, from a $502,000 budget to $383,913, against recent actuals of $452K–$467K. A 23.5% reduction is large enough to require an explanation: is this a re-bid, a vendor change, or a scope cut? The concern is a maintenance-to-repair shift — if maintenance scope was trimmed, it can resurface in the volatile elevator-repair account (6680), which is projected at $103,300 this year. **Cable TV (6000) rises $72K (+23.6%)** to $377,428, partly a gross-up to capture ~25% in taxes and fees the detail says “did not appear to be included” before — meaning prior years may have under-recovered. Cable is fully ancillary and nets to roughly break-even against cable revenue — but the owner-billing methodology adopted January 1, 2026 creates a per-residence equity problem detailed at §D-8 (Key Finding 10). **Window washing (6320) rises $17K (+30.6%)** to $71,650 on an added scope (spiderkill, deep brushing); the per-application schedule is in the detail and should be confirmed. Scavenger (6040) $65,136 (+8.6%); confirm the vendor, contract term, and escalation basis.

Three small accounts are budgeted flat or near-flat *below* their current-year run rate: security system (6210) $18,700 vs. $26,500 projected; city safety (6250) $38,700 vs. $43,233 projected; metal maintenance (6300) $24,500 vs. $33,866 projected. Individually minor, but they fit a one-directional pattern of budgeting below known run rates that recurs across the document.

Questions / document requests:

- The elevator maintenance contract behind the −23.5% change — scope, term, vendor, and confirmation that maintenance coverage was not reduced in a way that shifts cost to the repair accounts.
- The cable contract and the tax/fee gross-up; confirmation of whether prior years under-recovered and whether owners were billed the shortfall.
- The basis for budgeting security, city-safety, and metal-maintenance below current-year projections.

D-4. Repairs & maintenance — $1,078,900 (9.9%, +3.2%)

This category is the clearest illustration that the budget is being managed to a target rather than built bottom-up consistently — it contains padding in one direction and under-budgeting in the other. **JHC misc repairs (6505) is budgeted at $100,000 against a Hearn's vendor projection of $65,430** — a $34,570 cushion (the internal override field reaches $150,000). **JHC rig repairs (6670) is budgeted at $65,200 against a Hearn's projection of $51,697** — a $13,503 cushion. Meanwhile, in the other direction, **JHC elevator repairs (6680) is budgeted at $15,000 while the current year is projected at $103,300** (YTD actual already $36,298). Budgeting $15,000 for an account running toward six figures is only defensible if the $103,300 was a one-time event — and the package does not say what it was. That single line is an $88K potential overrun carried under a flat budget. Note: the auditor's FY2025 accruals on 6505, 6670, and 6690 ($10,171.92 — nine separately identified invoices — $3,123.01, and $2,232.20) were recorded effective 8/31/2025 and were reversed by December 2025 REV AUDIT entries (§D-10).

Plumbing (6650) $115,000 is flat but well above the $79,500 four-year average; rodding (6660) $170,000 (+13.3%) — above the ~$158,000 Taffe + Cam Pipe build to which the earlier proposed $157,500 reconciled; carpet/floors (6760) $79,900 is flat, but the detail flags that spare-carpet inventory is exhausted and a purchase proposal will go to reserves (acct 9180).

Hancock Market (Account 6780) and 44th Floor Lease (Account 7500). Please provide the detail supporting approximately $95,000 recorded in Account 6780 and the $36,000 annual Club 44 lease recorded in Account 7500. The audited supplementary schedule reports $80,188 for Hancock Market and $26,767 for the 44th Floor Lease. These accounts also carry components beyond the allocated lease-space expense, and supporting documentation is required to determine their composition. Confirmation is needed on four points: the lease-tax calculations, the allocation methodology between the two accounts, the composition of each account, and the characterization of the recorded amounts as Association obligations under the leases versus costs of the commercial operations. Until the composition is documented, certain Hancock Market costs appear to be inconsistently classified among the operating accounts — which affects budget comparability across periods, the measurement of ancillary profitability, operation-specific reporting, and the Board's oversight of the leased operations.

In the author's Exhibit A, the lease-revenue-equivalent portion of each is allocated to Ancillary and the remainder to Assessments as a member-amenity cost (§D-9), applying the deduction cap — a nonexempt expense is limited to the nonexempt revenue it offsets, so a below-market amenity's excess cost cannot carry a deductible ancillary loss and falls to assessment (cf. *Portland Golf Club v. Commissioner*).

GAAP adjustment — operating lease: the "Total projected" for FY2025-26 should include an accrual for the Association's property-tax obligation through fiscal year-end. The Association has historically not accrued this obligation, despite the lease requiring payment of the landlord's real estate taxes as Additional Rent — and because Cook County bills in arrears, the unbilled obligation attributable to occupancy through 8/31 is a real amount, not a rounding item. Based on the lease terms and the timing of Cook County property-tax billing, the unaccrued FY2025-26 obligation is estimated at approximately **$64,000** — the Association's Additional-Rent property-tax liability under the John Hancock Center Office Lease for the space it leases from the commercial owner, which belongs in the Hancock Market (6780) and 44th Floor Lease (7500) accounts. Failure to accrue the lease obligation understates operating expenses and liabilities and overstates FY2025-26 operating results. Recognizing the accrual reduces the projected year-end operating result by approximately $64,000, converting the small operating surplus shown in the budget spreadsheet details into a projected operating deficit.

A separate problem affects the accrual that did exist: it appears to have been estimate-driven rather than computed from the lease clause and the tax bills — and a contractual obligation of this kind ordinarily should be capable of direct computation from the lease provisions and the available tax bills. AJE #4's $6,000 reduction on account 7500 is consistent with this: an accrual computed directly from the lease and the bills would not ordinarily require a year-end correction of that size. Support for both the original accrual computation and the auditor's subsequent adjustment is a demand item (below). That estimate produced the audited $26,767.48 reported for the 44th Floor Lease. CondoCPA then carried that same amount to Statement 2 of Form 1120-H as "Rental Unit Expenses" (Supplement §5(e)). The workpaper therefore provides the direct link between the audited financial statements and the 44th-Floor Lease deduction on the return — one of the items on which the Association's two return preparers' methodologies diverge (WP-C).

Questions / document requests:

- Justification for budgeting JHC misc repairs ($100,000) and rig repairs ($65,200) above the Hearn's vendor projections of $65,430 and $51,697.
- Explanation of the $103,300 elevator-repair projection and the basis for budgeting only $15,000 next year; whether it ties to the elevator-maintenance scope change in category 5.
- The Hancock Market and 44th-floor lease agreements (Additional Rent provisions), the landlord's real estate tax bills and the 5/8–3/8 derivation, the year-end Additional Rent accrual computation through 8/31 for accounts 6780 and 7500, and the basis for the $6,000 over-accrual the auditor removed from a contractual lease obligation.

D-5. Insurance — $1,511,300 (14.0%, −25.4%)

Premiums (8700) fall to $1,500,800 from a $2,053,100 budget. The detail breaks out D&O $39,897, workers' comp $64,827 (with a 5% mid-year step), owned-units HO6 $1,580, surety bond canceled, and the property/GL/umbrella/crime package at $1,405,918 — down from a $1,833,354 actual and a $2,002,785 prior budget. The package is the entire story; the rest is rounding by comparison. A year-over-year comparison on limits, deductibles/SIR, and insured (replacement) value remains the imperative, but it cannot be made from the records reviewed: the policy declarations for neither year were reviewed or reproduced at Appendix H. The property-package premium of $1,405,918 is a reduction of 23.3% against the $1,833,354 prior-year actual and of 29.8% against the $2,002,785 prior budget — two different comparisons, not a range. A reduction of that order is either a real re-marketing win or a coverage cut, and the two have opposite implications. One internal inconsistency to test: deductibles (8720) are budgeted at $25,000 for FY2026-27 — five times the $5,000 current-year budget, but still below management's own $30,051 full-year projection — while actual deductible expense through June 30, 2026 has already reached $144,027, far above all three figures (§D-9). If the premium savings were achieved partly by raising the deductible/SIR, then a $25,000 deductible budget remains too low and the savings are partly illusory. The point is sharper given the Association's $250,000 water-damage deductible (discussed in §D-11): the more the Association shifts risk onto itself through higher deductibles to reduce premiums, the more it must budget realistically for deductibles actually paid and hold the working capital to absorb them — a $25,000 deductible line against that June year-to-date experience and a quarter-million-dollar water deductible understates that exposure. Note also the LL-2026-03 insurance requirements (100% replacement-cost coverage; per-unit deductible rules effective July 1, 2026) — any coverage reduction taken to hit the premium number now carries warrantability consequences as well (§D-6).

Insurance is a governance decision as well as a budget line, and the record supports several process observations. The documents reviewed establish that the property/GL/umbrella/crime program was renewed, that the policy declarations for neither year were reviewed or reproduced at Appendix H, and that the broker of record is Baldwin. What the records reviewed do not contain is the procurement and placement file behind the renewal — the broker's marketing summary and placement analysis, and documentation of the Board's review and approval (the alternatives quoted and the subcommittee's recommendation are in the record, at the Weidner memorandum reproduced at Appendix H; this report's earlier statement that they were absent was incorrect) — or documentation of the Board's review and approval of the renewal terms, the premium reduction, and any associated coverage or deductible changes. Management presented insurance to the Board as premium and deductible budget figures (accounts 8700 and 8720); the placement analysis that would explain how a property-package reduction of that order was achieved, and whether it reflects re-marketing or a change in coverage, is not part of the budget materials reviewed. These are observations about the completeness of the record, not conclusions about the decisions themselves.

The deductible structure is where the budget and the placed program most need to be reconciled. The documented facts are that the deductible line (8720) is budgeted at $25,000 for FY2026-27 against a $5,000 current-year budget, that management projected $30,051 for the full year while actual deductible expense through June 30, 2026 has already reached $144,027 (§D-9), and that the Association carries a $250,000 water-damage deductible (§D-11). The evidence is consistent with a program that retains meaningful risk through the Association's own deductibles and self-insured retention (SIR), while the budgeted deductible line does not reflect that retained exposure. To the extent the premium reduction was achieved by raising deductibles or the SIR, the decision shifts risk from the insurer to the Association — a risk-management choice with two budgetary consequences: the deductible line must be funded to a level consistent with recent loss experience rather than a nominal $25,000, and the Association must hold working capital sufficient to absorb retained losses when they occur (§D-11). Whether that trade-off was evaluated and accepted by the Board is among the matters the record does not document.

These decisions reach beyond the insurance line. Insurance is 14.0% of the proposed budget and is funded through owner assessments, so the movement in the premium is a material component of both the operating budget and the assessments owners are asked to approve: a reduction eases assessment pressure in the budget year, while retained losses paid against deductibles fall to operating results and, through the mechanisms discussed elsewhere in this report, ultimately to owners. Insurance planning also intersects reserve planning at two documented points. First, the FY2026-27 conventional-lending standards (LL-2026-03 / Bulletin 2026-C) tie warrantability to 100% replacement-cost coverage and to per-unit deductible rules effective July 1, 2026, so any coverage reduction taken to achieve the premium number carries the warrantability consequences discussed at §D-6. Second, higher retained risk increases the liquidity the Association must maintain, linking the insurance program to the operating-fund and working-capital questions raised at §D-11. The financial implication, stated without drawing a conclusion about the decisions, is that the program cannot be evaluated on premium alone: its effect on assessments, cash flow, and reserve adequacy depends on coverage and retention terms the current record does not fully disclose.

Questions / document requests:

- The broker's (Baldwin) marketing summary and placement analysis explaining the reduction, documentation supporting any coverage changes not evident from the renewal packet at Appendix H, together with the policy declarations, which were not reviewed, and confirmation that replacement-value coverage on the tower was not reduced below the LL-2026-03 100% replacement-cost standard.
- The basis for the $25,000 deductible budget and an unchanged $30,051 full-year projection given that actual deductible expense through June 30, 2026 already stands at $144,027, and any change in SIR.
- The insurance procurement and placement file for the FY2026-27 renewal: the markets approached, the alternatives quoted, and the broker's recommendation as presented to the Board.
- The Board's review and approval record for the FY2026-27 insurance renewal, the premium reduction, and any associated coverage or deductible/retention changes, including the minutes reflecting that consideration.

- A reconciliation of the budgeted deductible line (8720) to the actual deductibles and self-insured retentions in the placed program (Appendix H), and the Association's working-capital plan for absorbing retained losses (§D-11).

D-6. Reserves — contribution $1,480,000 (13.5% of total operating revenue, +45.1%)

The contribution rises 45.1% to $1,480,000. The budget presents that number on its own. Where the Association addresses the reserve study at all, it does so in narrative — in the Finance Committee's transmittal letters, which cite the study's recommended contribution against the planned contribution and then fold in projected interest income and anticipated underspend to assert the reserves are "right at the balance expectations of the study," never isolating the contribution against the study's recommended contribution to disclose the resulting shortfall. That isolation is supplied here: the study recommends $2,453,400, so the $1,480,000 contribution funds only 60.3% of the recommendation, and the $973,400 difference is the measure of the waiver from the study's reasonable-reserve recommendation — a shortfall the budget nowhere states or quantifies; it shows only the bare $1,480,000 contribution. The "waived per finance committee" designation is CIA's own annotation on the consolidated workpaper (Exhibit H), identifying what the unexplained funding level represents; the budget itself makes no such acknowledgment. That reliance on underspend is not supported by recent experience: with two months left in FY2024-25, the same Finance Committee projected roughly $200,000 of underspend to top up reserves, yet the audited FY2024-25 operating result was a $2,723 surplus (§D-13) — a roughly $197,000 miss over the final forty-one days (July 21 to August 31, 2025), and a reserve top-up that did not materialize. The FY2026-27 transmittal repeats the representation, stating that the Association is "on track to have around $200k underspend this current Budget year" and intends to apply it to reserves. The Association's own June-updated figures do not support it. Management projects FY2025-26 operating expenses of $10,554,325 against a $10,519,873 budget — an overspend of $34,452, not an underspend — and seven accounts had already exceeded their full-year projections at June 30, 2026, a net unfavorable effect of approximately $170,333 (§D-9). Exhibit H, which adds the approximately $64,000 lease-related property-tax accrual that neither management nor the auditor recorded (§D-10), projects $10,618,324 and a $39,137 operating deficit — on either basis there is no surplus available for transfer. An underspend of that order is reachable only on the double-counted revenue presentation documented at §D-11, which yields an apparent surplus of approximately $286,000 where the corrected figures yield a deficit. The budgeted reserve contribution funds 60.3% of the reserve study's recommended contribution ($1,480,000 against $2,453,400) — well below what the Association's own study, which Section 9(c)(2) requires the Board to consider, indicates is needed. The waiver is a **deferred assessment increase of 9.97%** of the annualized current assessment rate ($973,400 ÷ $9,762,945) — deferred, not avoided, and compounding. The study reports a current reserve balance of $19,118,325 (as of 12/31/2021) against a 30-year replacement scope it totals at roughly $119.8M. The scope covers the HOA's floors 44–92 — the Association's approximately 44.64% of the former John Hancock Center — not the full 100-story building. Using the reserve study's component data, and on the study's own assumptions and assuming recommended contributions were made, CIA calculated the Association's unfunded reserve liability as widening from approximately $18M at the time of the study to approximately **$85M by the end of its 30-year study period (August 31, 2052)**. Those contributions have not been made, for at least the fifth consecutive year. In the period since the 2022 study, surging inflation, deferred contributions, project cost overruns, and unbudgeted projects have materially worsened the trajectory: on the author's analysis, the **current** unfunded liability is now approaching **$30M**, and the **projected** unfunded liability at the end of the study period is on a path toward at least **$100M** — even if the Association begins following the study's recommendations now, which it is not. That trajectory carries a governance dimension the budget does not address: **intergenerational equity.** Each generation of owners is obligated to fund its own proportionate share of the building's capital needs as they accrue. Persistent reserve waivers violate that principle by deferring costs to future owners who receive no corresponding benefit from the current period's deferred maintenance — they simply inherit the liability. The Board is not maintaining intergenerational equity, and the proposed FY2026-27 budget, with its $973,400 waiver, continues the pattern.

The ~$119.8M scope understates the true obligation, because approximately $67.7M of high-priority replacement is scheduled beyond the study's own 30-year study period, on the author's totaling. The study identifies and costs the building's components in its reserve inventory, then schedules each one's replacement; a substantial block of that work — roughly **$67.7M** on the author's totaling — is scheduled beyond the reserve study's 30-year study period, so it carries **no scheduled expenditures or reserve funding within the study's cash-flow plan through August 31, 2052**, even though the components are catalogued and their costs are known. What makes this consequential rather than a routine study-period convention is *which* components they are: the deferred work is dominated by items the study itself rates **High Priority** and **High Impact** — the building envelope and core mechanical systems, including the façade sealants and column/beam covers, the remaining insulated-glass windows on floors 44–92 (a $35.8M line by itself), the "Long-Term Funding" hallway air-handling coils, elevator modernization, and the domestic-water and cooling riser/piping systems. Deferring low-urgency, genuinely long-lived items beyond a 30-year study period is ordinary; deferring the envelope and mechanical backbone of a 49-floor residential section of a 100-story mixed-use highrise — work the study flags as high priority and high impact — is a timing choice that keeps the funded figure artificially low while the underlying need is neither low-priority nor far off. The $2,453,400 recommendation and the $119.8M funded scope both understate the Association's full replacement obligation accordingly, and any "we are adequately reserved" argument that leans on the funded figure alone is measuring against a truncated study period that happens to exclude the most urgent and expensive work. As the study period rolls forward each year, portions of that $67.7M of high-priority scope cross into the funding window — which is one more reason the underfunding compounds rather than holds steady.

Neither the Board nor the Finance Committee has authority to waive reserves; only the owners do — and possibly not even them. Section 9(c)(2) of the Illinois Condominium Property Act commands that all budgets *shall* provide reasonable reserves, and prescribes five factors the board must consider — including "(iii) any independent professional reserve study which the association may obtain." Section 9(c)(3) places the waiver power exclusively with the membership: waiver in whole or in part requires **a vote of 2/3 of the total votes of the association** — total votes, not two-thirds of a quorum. The 175 EDP Declaration resolves the "condominium instruments" condition on its own terms. **Article VI, §1** mandates reasonable reserves for capital expenditures and deferred maintenance and supplies its own waiver — waiver of "the reserve requirements of this section" by the same 2/3-of-total-votes vote, with the disclosure §9(c)(4) requires — so the §1 reserve is waivable, but only by that owner vote. The bar is therefore identical under the statute and the Declaration — a

2/3-of-total-votes owner vote plus disclosure — and the Finance Committee's action meets neither, so the $973,400 reduction does not satisfy the Declaration's own §1 reserve and waiver provisions, and not merely the statute. The Declaration independently governs the budget itself: Article VI, §1 (Assessments & Maintenance Fund) requires the Board to prepare and distribute a detailed proposed annual budget at least 25 days before adoption, identifying anticipated common expenses by category, anticipated assessments and other income, and the portions intended for reserves, capital expenditures, repairs, and real estate taxes, and to adopt reasonable reserves considering repair costs, useful lives, reserve studies, investment returns, the financial impact on owners, and financing needs — the budget-and-reserve duties against which the findings in this section are measured. A finance committee possesses no waiver authority under any reading: committees advise, boards adopt, owners waive. No owner vote is known to have occurred. Section 9(c)(4) supplies the consequence: a *valid* waiver must be disclosed in the financial statements and highlighted in bold in every §22.1 prospective-purchaser disclosure, in exchange for which directors and the managing agent receive a statutory shield from liability for inadequate reserves. Here there is nothing to earn that shield. No 2/3 owner vote is known; the Finance Committee that set the funding level has no waiver authority; and the budget itself neither states the study's recommendation nor quantifies the shortfall, so nothing on its face discloses that reserves fall below the statutory standard — the "waived per finance committee" characterization is CIA's own workpaper annotation (Exhibit H), not a statement the budget makes. The posture is therefore the opposite of a safe harbor: the funding level sits below the §9(c)(2) reasonable-reserves standard, no owner authorization exists, and the shortfall is undisclosed rather than disclosed — leaving directors and the managing agent exposed under the very provision that would have shielded them had the owners voted and the waiver been disclosed. Nor is there any visible "reasonable reserves determination" in the budget for a §9(c)(2) defense to rest on. Whether any §22.1 disclosure issued to purchasers has nonetheless carried the bold-print waiver statement is a further demand item; on the budget as presented, none would be supported.

These reserve-study patterns correspond to a recognized fraud risk factor. The PPC *Guide to Homeowners' Associations* (audit checklist HOA-CX-6.2, Fraudulent Financial Reporting — Incentives/Pressures, item 1.a.(3)) identifies as a fraud risk factor the situation in which those preparing a reserve study are under pressure to report longer component useful lives or lower replacement costs, so that the study does not produce an unacceptable catch-up increase in reserve contributions. The same checklist (item 1.a.(7)) identifies a board's motivation to set an unrealistically low budget, or to shift operating expenses into the reserve fund and thereby distort operating income, as a further risk factor. Naming these factors is not an assertion that fraud has occurred: professional standards treat a risk factor as a condition warranting heightened attention, not as evidence of misconduct. But several conditions this report documents — high-priority envelope and mechanical replacement deferred beyond the study period (which keeps the funded figure low), a reserve waiver of $973,400, income taxes charged into the reserve fund (§D-6 above; tax analysis in §D-9), and a five-year operating surplus that has all but disappeared (§D-13) — are among the very conditions these risk factors describe. That correspondence is itself a reason for the Board to obtain the reserve-study working assumptions, the basis for the waiver, and the fund-allocation support identified in the demand at Exhibit F, so that it can satisfy itself the pattern has an innocent explanation.

A separate governance matter: the documentary record of Board review and action on the study. The Board received only 18 of the 154 pages comprising the May 20, 2022 reserve study (approximately 12%); the packet materials identify that document as a draft, and whether a final version was subsequently issued is not established by the records reviewed. The materials presented to the Board did not include the complete report prepared by the reserve specialist, and the information available for Board review was limited accordingly. The minutes reviewed reflect discussion of the reserve study but do not document a motion, recorded vote, or Board resolution adopting the 2022 Reserve Study Update; likewise, the minutes do not document a decision to reject the study, a request for revisions, or the commissioning of a replacement study. The records reviewed also do not document periodic Board review of the reserve study, consideration of updated reserve analyses, or documented reasons supporting subsequent reserve-funding decisions. These are distinct issues. First, this report independently evaluates the technical reliability of the 2022 reserve study based on its contents and supporting evidence. Second, the documentary record reflects that the Board reviewed only a limited portion of the study, discussed it, but did not document a formal resolution adopting it or the analytical basis for subsequent reserve-funding decisions. This report describes the documentary record and expresses no legal conclusion regarding the Board's fiduciary duties.

The "interest offset" defense is not anticipated — the Treasurer has already made it in writing. In a May 21, 2026 email sent to an owner and the Board President, and copied to two members of the Finance Committee (which the Treasurer chairs), the Treasurer acknowledged that the 10% contribution guideline is "insufficient and too simplistic" for a building of this complexity and that 15% is "a much better aim for any large HOA," yet asserted the Association has "exceeded that figure for several years" — but only, in his own words, "together with the interest income and the yearly revenue surplus" (Appendix F). That formulation is the defect stated by its proponent: it reaches 15% solely by counting toward the reserve-contribution percentage two things the Fannie/Freddie standard does not — investment interest and operating surplus. Measured as the standard measures it, the contribution against assessment income, the $1,480,000 contribution is 14.8% and falls roughly $21,000 short of the 15% floor (Key Finding 4; Exhibit E). The Association's own presentation embeds the same move: its budget Exhibit A folds "Contributions to Reserve Fund" and "Interest on Reserve Funds" into a single "Total Reserve Increases" line, presenting investment interest as though it were reserve funding. The defense thus fails not only on its own logic but in the words of the officer advancing it. The pattern predates this budget: the FY2022-23 transmittal (Appendix G), signed by the current Board President when he served as Treasurer and Finance Committee Chair, likewise conceded the contribution fell "a little short" of the study and pointed to reserve growth to help close the gap. Historically that gap was closed less by the $1,000,000 contribution than by the Association's operating surplus — but that surplus has eroded steadily, from $1,166,717 in FY2019-20 to $878,533 by FY2021-22 (already below the contribution), and then to $318,987 and $2,723 in the two years that followed (§D-13). The margin the Association relied on to close the reserve gap has effectively disappeared. The argument marks one assumption to market and leaves the rest frozen in 2022. First, the same rate environment that lifted CD yields lifted inflation — and construction and replacement costs on high-rise facade, mechanical, and elevator work have escalated faster than headline CPI, disproportionately widening the unfunded gap the interest is supposed to offset. Harvesting the favorable half of the rate shift while ignoring the unfavorable half is advocacy, not analysis; if the assumptions are stale, the remedy is a re-run study, not a one-variable verbal offset. Second, the 2022 study assumed **0% income taxes**, and the Association now pays six-figure annual income taxes from reserves ($114,363 audited FY2025; $110,728 federal and $15,000 state budgeted for FY2026-27, again as reserve expenditures) — and reserve interest is precisely the income taxed, at a 30% flat federal rate under IRC §528 (the activity-by-activity taxable-income method is illustrated in Exhibit G). Every incremental interest dollar arrives at no more than 70 cents net against a study that counted 100 cents; and the FY2025 effective rate reached ~13% only through the deduction structure this report questions — if those positions fail, annual tax leakage approaches $190–240K against an $800K gross, modeled by the study at zero. Third, the $800,000 interest figure cannot be verified because it has not been computed on a reliable basis. The correct FY2025-26 reserve interest baseline requires: actuals through April 30, 2026, net of the $95,597.84 reversal of the unreversed FY2025 accrual, and excluding unrealized gains and losses; plus projected interest income from May 1 through August 31, 2026; plus the year-end accrual at August 31, 2026. The YTD figure as currently reported is distorted by three independent matters — overstated by the unreversed accrual, reduced by the $90,947.86 unrealized market-value loss (quantified as of June 30, 2026), and understated by the absence of a year-end accrual for the remaining months — so the net relationship between the $800,000 budget and a correct figure is indeterminate until the computation is performed on the proper basis (§D-10). Fourth, the study states the point on its face: it discloses that it uses the **Cash Flow Method** and assumes reserve interest is reinvested at just **0.20%** — so the Board's "our interest runs far higher now" argument marks that single 0.20% assumption to market while leaving the study's inflation, tax, and scope assumptions frozen. Under the Cash Flow Method the $2,453,400 recommendation already builds in projected interest earnings, so counting today's higher interest *against* the waiver double-counts it; and because the fund has been funded at 60.3% of the recommended contribution, the actual balance earning interest is smaller than the study projected. The one-sentence version: *the same study the Board invokes for its interest offset assumed 2022 inflation, 0.20% interest, and 0% taxes — and, on the author's totaling, schedules roughly $67.7M of high-priority replacement scope beyond its own 30-year study period; updated for reality on all variables rather than the one the treasurer likes, the gap is wider than the waiver line admits, not narrower.*

The current posture is therefore rate-dependent and temporary — the feature that matters most to owners. Two foreseeable events dismantle it. When interest rates decline, the investment income now standing in for the missing contribution falls with them, and the shortfall the "offset" had been covering is exposed in full. And when the reserve study is updated — already "gearing up," per the Treasurer's May 21, 2026 email — it will reprice the Association's obligations at current construction costs and pull portions of the ~$67.7M of deferred high-priority scope into the funding window, driving the recommended contribution well above the 2022 figure. Either event, and certainly both together, converts years of deferral into a sharp, non-discretionary assessment increase — precisely the "shock" the Association's stated philosophy of small, even annual increases claims to prevent — falling on whichever owners hold units when the bill comes due. That is the arithmetic of funding reserves at 60.3% of the recommendation and calling the difference a waiver: the increase is not avoided, only deferred and enlarged, and handed to a later set of owners.

Because the reserve study included no income taxes, charging income taxes to the reserve fund is improper. This is a distinct point from the tax drag on interest. The reserve study — the document that sets the required contribution and against which the funding percentage is measured — modeled income taxes at zero. It therefore neither funded a tax obligation within the reserve contribution nor contemplated taxes being paid out of reserve balances. Paying the Association's income taxes from the reserve fund anyway does two things the study does not support: it draws down reserve balances the study assumed would remain invested and compounding, and it charges to the reserve fund an obligation the study placed nowhere — which, if it belongs anywhere, belongs in the operating fund as a cost of the Association's operations. The result is that the reserve fund is depleted below the study's own projection by the cumulative amount of taxes charged to it (approximately $114,363 in FY2025 alone, and $125,728 budgeted for FY2026-27 — $110,728 federal and $15,000 state, both carried in the Board's reserve schedule), while the operating side of the budget, which carries no income-tax expense at all, is relieved of a cost that is properly its own. The correct treatment is to budget the Association's income tax in the operating fund and to leave the reserve fund to perform the function the study modeled: funding capital replacement, undiminished by an obligation the study never assumed. Two further points support that treatment. First, under the common-interest-realty fund-reporting model on which the Association's own financial statements are prepared (FASB ASC 972; PPC Guide to Homeowners' Associations and Other Common Interest Realty Associations), amounts accumulated for future major repairs and replacements are reported separately from operating activity. Income tax is a recurring period expense of the Association; it is not an outlay for a major repair or replacement, and classifying it among reserve expenditures places that recurring obligation alongside the elevator, window, and water-tank capital line items it sits with in the Board's schedule. Second, the obligation is not attributable to the reserve fund alone: the Association's non-exempt income, on its own returns and on the activity-level analysis in this report, comprises ancillary operating activities as well as reserve interest (§D-8; §D-9; Exhibits C and G). Even on the narrower view that a tax should be borne by the fund whose income generated it, the portion arising from ancillary operations is an operating cost charged to reserves. Charging taxes to reserves both understates the operating cost of running the Association and overstates the reserve fund's capacity to meet the capital schedule — two distortions that compound the funding shortfall documented above. The classification also determines the operating result the budget presents. The $20,138 net operating surplus is computed without any income-tax expense; carried as an operating cost, the $125,728 provision would convert that surplus into an operating deficit of approximately $105,590. The placement of the tax in the reserve schedule is therefore not a presentational detail: it is the difference between a budget that reports a small operating surplus and one that does not.

Fannie Mae LL-2026-03 / Freddie Mac Bulletin 2026-C (3/18/2026) convert the waiver into a warrantability failure with a countdown clock. Effective for loan applications dated on or after **August 3, 2026** — fourteen days before the adoption vote — the Limited Review process is retired: every conventional loan in a project of more than ten units undergoes Full Review of the association's budget, reserve funding, insurance, litigation, and special assessments. Simultaneously effective, a lender relying on a reserve study must verify the budget adopts the **highest recommended reserve allocation in the study**, and baseline funding is prohibited. Measured against that standard, the compliance shortfall is *exactly the* *waiver line*: $2,453,400 recommended, $1,480,000 funded, **$973,400 short, dollar for dollar**. Effective **January 4, 2027**, the alternative percentage floor rises from 10% to **15% of annual budgeted assessment income** — approximately $1,501,100 against the $10,007,019 assessment line, which the $1,480,000 contribution (14.8%) misses by roughly $21,000. And the reserve-study recency rule (36 months) means the 2022 study is stale or nearly so at any loan review this cycle — foreclosing the study alternative and defaulting the project to the 15% rule it fails. The Board thus cannot lean on the 2022 study's assumptions to minimize the waiver while presenting lenders a study too old to count. Consequences of failure: designation as "Unavailable" in Condo Project Manager, no conventional financing or GSE refinancing for any unit, a cash-and-portfolio-only buyer pool, and depressed values building-wide — the $973,400 "saved" was equivalent, on a simple-average basis across approximately 700 Units, to about $116 per Unit per month — purchased at the price of every unit's marketability. Pending litigation (*Mattis*) is an additional consideration in the lender's Full Review process. These are secondary-market lending standards affecting project warrantability, not requirements of Illinois law or GAAP. The underlying reserve exposure is material for a building of this scale: on the author's estimate the current unfunded reserve liability approaches $30 million and, on the present trajectory, would reach nine figures by the end of the study period. These are order-of-magnitude estimates, not exhibited computations — deliberately so, because they rest on a 2022 reserve study that is both dated and incomplete (on the author's totaling it schedules roughly $67.7 million of high-priority replacement scope beyond its 30-year study period), and precise figures would imply a confidence the underlying study cannot support.

Reserve interest income (9020) is budgeted at $800,000 against a projection of $726,900, but neither figure is on a reliable basis. Two independent distortions affect the YTD figure: first, $95,597.84 of FY2025 interest embedded via the unreversed AJE #3 accrual (an unreversed-accrual problem); second, unrealized market-value movement carried in the same account under management's bookkeeping basis but not recognized as income on the audit's amortized-cost basis — an unrealized *loss* of $90,947.86 as of June 30, 2026 (a basis-of-accounting problem). Critically, it is *unconfirmed whether management's projection includes a year-end accrual* for interest earned but not yet received through August 31, 2026; if it does not, the YTD is correspondingly understated. As a matter of accrual accounting, all accounts — interest included — should be accrued through the end of both the projected year (August 31, 2026) and the proposed budget year (August 31, 2027). The net direction of the $800,000 budget relative to a correct figure is therefore indeterminate: the figure is overstated by the accrual, reduced by the $90,947.86 unrealized market-value loss, and, absent a year-end accrual, understated for the remaining months. The correct FY2025-26 figure must be rebuilt on the reversed, amortized-cost basis set out above (the interest-offset discussion) and carried in Exhibit E, before the FY2026-27 line can be relied upon; that budget should be built from the restated figure, and interest should be credited to reserves rather than counted as a substitute for the Association's reserve contribution; the tax treatment is a separate matter.

Reserve investment income — independent reasonableness check.

Although the accounting basis of the year-to-date reserve interest income figure should be corrected before it can serve as a reliable budget baseline (discussed above), this review independently evaluated whether the $800,000 FY2026-27 budget figure is reasonable on its face. This discussion is included to demonstrate a complete review of the budget assumption, not to suggest the figure has been independently verified or audited.

As of February 28, 2026, the Association held approximately $21.8 million in reserve investments, consisting of certificates of deposit, money market funds, and reserve cash. The Wintrust brokerage account — which held approximately $17.23 million of reserve investments — carried an estimated annual income of approximately $657,500 based on the holdings as reported. The analysis assumes maturing certificates of deposit are reinvested at approximately 4.00%, a rate that is generally consistent with the Association's recent certificate of deposit portfolio and is intended solely to evaluate the reasonableness of the proposed budget rather than to project actual earnings. The proposed budget also projects reserve fund expenditures exceeding reserve contributions by approximately $0.8 million during FY2026-27, which would modestly reduce the average invested reserve balance over the fiscal year.

Although the projected reserve investment income appears reasonable based on current market conditions, investment income alone is unlikely to preserve the long-term purchasing power of the reserve fund. Because investment income is generally taxable and reserve expenditures are subject to construction-cost inflation, the real after-tax return on reserve assets may be negative over time. Consequently, reserve investment income should be viewed as a supplement to, rather than a substitute for, adequate reserve assessments.

Based on this independent reasonableness analysis, the budgeted reserve investment income falls within a reasonable range and is therefore not identified as a material finding. This conclusion should not be interpreted as indicating that projected investment income is sufficient to address the Association's reserve funding needs; it merely indicates that the amount budgeted for reserve investment income is not materially inconsistent with the current reserve portfolio and the budget's projected reserve cash flows.

The budget carries no income-tax expense in operations, and the reserve-schedule provision does not reach the exposure this report identifies. AJE #5 records $115,000 of federal income taxes payable at 8/31/25 (audited federal tax expense $114,363.24) — a recorded liability for FY2025 as filed, not the ceiling of the Association's exposure — while the FY2026-27 budget carries no income-tax expense in its operating columns and provides $125,728 ($110,728 federal, $15,000 state) as a reserve expenditure (§D-14). The author's reconstructed tax analysis identifies approximately $150,000 of additional taxable income elsewhere in this report; the resulting increase in estimated federal tax is approximately $45,000 before any further adjustments. The associated accounts payable has since been settled off the books, so no double-count exposure remains on this item; however, the misstated interest account continues to undermine the income figure on which the tax is computed, so the Association still cannot reliably budget its tax liability. (The tax treatment of the reserve contribution itself, and why the lower Form 1120 rate is not safely available, are addressed at §D-14.)

This is the section where the headline findings converge. If the $472,489 assessment-side surplus were applied to reserves alongside the $1,480,000 contribution, total funding would reach $1,952,489 — still $500,911 short of the recommendation (and still short of the LL-2026-03 study standard), and far short once the roughly $67.7M of high-priority replacement scope, on the author's totaling, that the 2022 study schedules beyond its 30-year study period is considered. The finalized budget does direct most of the $521,800 insurance reduction to reserves — the contribution rises $460,000 — but the affordability rationale for the remaining $973,400 waiver is difficult to reconcile with an assessment side simultaneously budgeted to a $472,489 surplus, and both the reserve improvement and the thin $20,138 operating balance rest on a single year's insurance result whose durability the record does not establish (§D-5).

Questions / document requests:

- The Finance Committee's documented basis and any Board or owner vote for the $973,400 waiver; the declaration/bylaws provisions bearing on reserves (§9(c)(3) availability); records of any 2/3 owner vote; specimen §22.1 disclosures (bold-print waiver statement); conflict disclosures.
- The Association's plan for LL-2026-03 / Bulletin 2026-C compliance (the August 3, 2026 highest-recommended-allocation standard and the January 4, 2027 15% floor), its current lender-questionnaire responses, and the commissioning status of an updated reserve study within the 36-month recency window; the issuance status of the 2022 study (whether a final version superseding the May 20, 2022 draft was issued and distributed); the 2022 study's assumptions page (inflation, interest, tax rates, funding method, and treatment of interest earnings), the full component inventory with each component's priority/impact rating and replacement year, to confirm the roughly $67.7M of high-priority replacement scope scheduled beyond the 30-year funding horizon, and whether the manager's apartment is in the study's scope.
- The rebuilt reserve-interest calculation for FY2026-27 on a clean, reversed, amortized-cost base, and confirmation that interest is credited to reserves.
- The preparer's contemporaneous written tax analysis supporting the proposed reserve contribution, the projected budget surplus, and the related federal income-tax treatment — including any analysis under IRC §118, Revenue Ruling 70-604, or other authorities relied upon.

D-7. Other — $983,119 (9.2% of total operating revenue, +6.0%)

This bucket (HVAC, amenities, loading dock, management fee, bank charges, miscellaneous administrative, supplies, copier, postage, audit, legal, consulting, communications, Wi-Fi, memberships) is where several items deserve attention. **Audit fee (8300) — corrected to $18,300; election administration presented separately in both years.** As corrected, the FY2026-27 audit fee is **$18,300** ($4,575 assessment / $13,725 ancillary). The line's comparability problem is that election administration — the third-party administration and vote-tallying services for the annual director election, which are not an audit expense — has been carried inside the audit line. Exhibit H therefore presents both years on one structure. For FY2026-27, the **~$25,000** budgeted for those services is presented in Miscellaneous Administrative (8200), not in the audit line. For FY2025-26, CIA estimated that approximately **$12,000** of the $30,000 Audit Fee budget related to election administration and vote tallying, and the comparative presentation carries that amount in Miscellaneous Administrative as well — leaving a normalized FY2025-26 audit-only budget of **$18,000**. After separating election-administration costs from Audit Fees, the annual audit engagement is essentially flat: approximately $18,000 for FY2025-26 compared with $18,300 for FY2026-27, an increase of approximately **+1.7%**. For presentation comparability, the FY2025-26 budget, year-to-date actual, and projected amounts were reclassified to conform to the FY2026-27 account structure. **$23,769.11** of recorded election-administration expense previously included in Audit Fees was reclassified to Miscellaneous Administrative, together with the related comparative budget amount. These presentation reclassifications do not affect total general and administrative expense or projected operating results; they identify the cost of the audit and the cost of election administration separately and consistently. The reclassification reconciles as follows: the FY2025-26 projected Audit Fees balance of $40,767.00 was increased by a subsequent audit invoice of $225.11 to $40,992.11, from which the $23,769.11 of election-administration expense was reclassified, leaving the final projected Audit Fees balance of $17,223.00 shown in Exhibit H. Two consequences follow. First, the audit engagement itself is neither declining nor growing materially — the apparent swings in this line were classification artifacts of bundling election administration with audit fees. Second, election administration becomes visible as its own category, independent of the annual audit engagement: approximately $12,000 was budgeted for FY2025-26 against $23,769.11 actually recorded, and approximately $25,000 is budgeted for FY2026-27. The FY2026-27 figure therefore sits at roughly the current year's recorded cost rather than at double the current year's budget; what looked like a doubling was an artifact of a FY2025-26 budget that provided for about half the cost actually incurred. The reclassification matters for three reasons beyond tidiness: *faithful presentation* — labeling an election cost as an audit fee misstates what the Association spends on each function, so neither the Board nor owners can see the true cost of the audit or of running elections, and year-over-year comparisons on both lines are distorted; *allocation* — audit cost carries a defensible assessment/ancillary split tied to the exempt/nonexempt income it supports, while election administration is a common-governance cost that belongs wholly on the assessment side, so the misclassification also mis-allocates the dollars between columns; and *scrutiny* — the election cost itself, roughly $25,000 to administer a director election, is a governance expense the Board should see and evaluate on its own line, not combined within "audit." Owner participation has been steady — just over 45% of the Association's ownership voted in each of the last two elections (45.52% and 45.71% by ownership interest); 323 units were represented in the most recent — so at the ~$25,000 budgeted, election administration runs on the order of $77 per ballot cast. The figure is offered as context for the magnitude of a recurring governance cost the budget had not separately disclosed, not as a judgment on the election process itself; the Board should confirm the third-party tabulation and administration scope that drives it. **Legal-association (8320) is budgeted at $100,000 (+17.6%) against a $125,400 current-year projection** — under the run rate, and likely light given the active litigation (Mattis/Holiday Fund, the records demands); confirm the litigation-cost assumption and whether D&O defense and the deductible are separately provided. **Legal chargeback (3950) and legal fees-units (8330) should match at $25,000.** The unit-related legal fees the Association incurs (8330, expense) are intended to be recovered from the responsible units through the legal-chargeback mechanism (3950, revenue); if the two are budgeted at different amounts, the budget is either assuming the Association eats a portion of recoverable unit legal cost or assuming a recovery it has not incurred. Both are now set to $25,000, which is the correct relationship, but the Board should confirm the pairing holds in the final budget and that the recovery assumption is realistic given collection experience. **Credit Losses Expense (8280, formerly Bad Debts Expense)** is budgeted at $0. The account was renamed to the current GAAP caption (credit losses, reflecting the CECL/expected-loss model), but a $0 budget for uncollectible assessments and charges is optimistic for an association carrying delinquency (per "175 East Delaware Place Homeowners Association – AR Aging – 7/13/2026," $47,293.61 in total receivables, including $15,740.43 more than 60 days past due) and actively pursuing unit-level legal collection; a zero credit-loss provision alongside a live legal-chargeback line is internally inconsistent, and the Board should set a provision informed by actual write-off history. The aggregate balance is modest, but the distribution — not the total — is what bears on the provision. The July 13, 2026 aging distributes $47,293.61 across four buckets: $21,733.18 current (0–30 days, 45.95%) across 23 property balances; $9,820.00 over 30 days (20.76%) across 10; $7,387.80 over 60 days (15.62%) across 7; and $8,352.63 over 90 days (17.66%) across 8. Three features are analytically relevant. First, a third of the balance ($15,740.43, 33.28%) sits beyond 60 days — seven property balances over 60 days and eight over 90, the largest accounts appearing in both — and the single largest aging bucket after current is the oldest one — an inverted profile, in which balances accumulate at the far end of the aging rather than curing as they age. Second, the aging reports total outstanding receivables rather than past-due amounts alone — $25,560.43 of the $47,293.61 is aged beyond 30 days — and those balances are not limited to regular assessments. Assessments account for $37,739.14 (79.8%) of the total; the remaining $9,554.47 (20.2%) consists of late fees ($4,654.86 across nine accounts), cable ($1,957.84 across twenty), storage locker charges ($1,448.27 across seven), legal fees ($683.22 across two), internet ($549.32 across twenty-one), returned-payment fees ($200.00 across four), and smaller labor, parts, and lock charges. Two consequences follow. The receivable system carries cable and internet as distinct charge types billed at the flat per-unit rates of $45.37 and $12.44 established in the January 1, 2026 segregation, which corroborates that the segregation is operative at the unit level (§D-8, §D-11). And because roughly a fifth of the delinquent balance consists of charges other than assessments, aged accounts carry assessments and non-assessment charges within the same balance — the circumstance in which the limitation discussed at §D-8 matters, namely that late fees may lawfully be assessed only on delinquent assessments. The aging does not establish how the Association computes its late fees; it establishes that the balances to which they attach are mixed. Third, the balance is concentrated. The four largest accounts carry $23,163.99, or 49.0% of the total, and three accounts hold $6,567.55 of the $8,352.63 over-90 balance (78.6%). Those same accounts show repeated late-fee accumulation — individual late-fee balances of $750 to $1,000, consistent with a flat $250 charge recurring across multiple months against monthly assessments ranging from roughly $775 to $1,700 (§D-8) — and the two accounts carrying legal-fee balances are both among the largest and both aged beyond 60 days, consistent with the unit-level legal collection the legal-chargeback line reflects. A receivable population with that profile has a nonzero expected credit loss by definition, and the budget provides $0 for it. Concentration of this degree also means the estimate is driven by a small number of accounts rather than by a broad population, so the provision depends on facts specific to those accounts — a reason to derive it from the aging the Association maintains rather than to omit it. The point is one of measurement, not magnitude: the balances at issue are immaterial to a $10.9 million budget, and the Association is not exposed to a liquidity problem — $47,293.61 is under one-half of one percent of budgeted assessment income. What the aging establishes is that the correct provision is demonstrably not zero, and that the figure the budget carries was not derived from the aging the Association itself maintains. Three distinct activities should not be conflated here: routine receivable management (billing, statements, and follow-up on current balances); legal collection activity (the unit-level actions supporting the live legal-chargeback line); and the accounting recognition of expected credit losses, which is an estimate required whether or not collection efforts are proceeding and regardless of their eventual success. Collection performance is, moreover, separate from the budget-presentation, accounting-methodology, and governance findings identified elsewhere in this report: the receivable balances are relatively limited and do not explain those deficiencies, and no inference about collection performance should be drawn from them. **Real estate tax attorney (budgeted at a nominal $100) — a special-assessment pass-through that renders the activity invisible.** The line is budgeted at a nominal **$100** — effectively a placeholder that keeps the account from being deleted — and otherwise nets to zero, not through ordinary accounting offset but because the Association passes the attorney's fees through to owners as a *special assessment*, and the pass-through revenue is booked against the fee so the account zeroes out. That mechanism creates two problems. First, it is an impermissible netting on the income statement: a special assessment levied on owners is revenue, and the attorney's fee is an expense, and reporting them as a single $100 (effectively $0) line discloses neither — the Board and owners cannot see from the budget that a special assessment is being levied for this purpose at all, how large it is, or what the attorney recovers in return. Under U.S. GAAP and CIRA accounting, revenues and expenses must be reported gross, and three points fix the authority. *Principal versus agent (ASC 606-10-55-37):* an entity reports gross, as principal, when it controls the service before it is transferred; the Association engaged the tax-appeal attorney and is the principal, so the special-assessment revenue and the legal expense must be shown gross — net (agent) treatment is available only to a passive intermediary with no control over the service, which a board-authorized tax appeal is not. *Recognition timing and the balance sheet (ASC 606):* special-assessment revenue is recognized as the related performance obligation is satisfied (as the legal work is performed); if owners are assessed in one fiscal year and the attorney is paid in a later one, the unspent portion is a contract liability (deferred revenue) carried on the balance sheet — netting the accounts to zero omits that matching requirement and the balance-sheet liability from the statements and leaves the activity without an audit trail. *ASC 210-20 does not authorize this:* the offsetting rules apply almost exclusively to balance-sheet assets and liabilities (for example, derivatives or repurchase agreements under an enforceable master netting agreement); no GAAP provision permits an operating expense to be netted against assessment revenue on the income statement to present a single zero-balance line. Gross reporting is required — the special assessment as revenue and the attorney fee as a legal/professional expense — and the netting also corrupts downstream tax testing: the 60% gross-income test on Form 1120-H is computed on gross figures, so routing assessment revenue off the income statement can distort the Association's exempt-function compliance (§D-9). Second, and more substantively, routing a recurring, budgetable professional fee through a special assessment is itself a governance question: special assessments are the instrument for extraordinary or unbudgeted costs, not for a triennial tax-appeal engagement (tracking Cook County's three-year reassessment cycle) that the Association can and should budget as an ordinary operating expense — provided for on its three-year cycle or amortized across the years between appeals. Financing a predictable operating cost by special assessment keeps it off the budget and understates the true cost of operations; and because owners have no say in either budgeting or special-assessment matters at this Association, the special-assessment route adds no offsetting owner oversight — it simply removes the cost from the Board's normal budget review. The line should show the gross attorney fee as an operating expense and, separately, any tax recovery obtained — and the Board should decide affirmatively whether a special assessment is the appropriate funding mechanism rather than inheriting it as a nominal placeholder line. **Miscellaneous Administrative (8200) is budgeted at $117,200 — approximately +25.9% against the normalized FY2025-26 budget of $93,100.** The line carries election administration in both years on the normalized presentation: the FY2026-27 budget includes the ~$25,000 of election-administration and vote-tallying cost presented here rather than in the audit line (the non-election base is ~$92,200), and the normalized FY2025-26 budget of $93,100 includes the ~$12,000 of election-administration budget formerly carried in Audit Fee. On that like-for-like basis the increase is approximately **+25.9%**, budget to budget, and the election-administration component — rising from a ~$12,000 budget to ~$25,000 — accounts for roughly half of it; the itemization demand below addresses the remainder (see the audit-fee discussion above). The detail shows $20,400 in parking, ~$26,000 in social events (annual meeting, Halloween, social), and the VTS/Rise software at ~$13,000 — itemize-able and worth a line-by-line look, particularly now that it also carries the reclassified election cost. Consulting (8380) rises from $12,000 to $30,000 (+150%), and the budget materials do not allocate the increase among specific consulting engagements. The record indicates the Association expected to undertake an updated reserve study during the fiscal year: the Board previously approved charging a reserve-study engagement to this account, and the Treasurer indicated the Association was gearing up for that work (§D-6). Reserve-study activities therefore likely explain at least a portion of the increase, although the record does not establish what portion of the $30,000 budget is attributable to that engagement. Wi-Fi (8435) $112,515 is fully ancillary and nets to a small loss against Wi-Fi revenue.

Questions / document requests:

- The litigation-cost assumption inside the $100,000 legal-association budget, and confirmation that D&O defense costs and the policy deductible are separately budgeted.

- An itemization of Miscellaneous Administrative ($117,200, including the ~$25,000 election-administration and vote-tallying cost), the $20,400 parking line (for whom), the ~$26,000 in events (Board approval), and the consulting ($30,000) purpose.

D-8. Ancillary operations and lease revenue — a $452,351 loss and rental income the Board cannot verify

Ancillary revenue of $851,557 is set against ancillary expense of $1,303,908, producing a net ancillary loss of **$452,351**, which offsets approximately 96% of the $472,489 assessment-side surplus. That $452,351 is the net of the corrected nonexempt segment — the arithmetic difference between the two ancillary columns of the corrected consolidated summary (Exhibit A) — not the operating loss of any single ancillary activity, and it is substantially affected by account-level classification and allocation corrections: $106,354 of the ancillary expense is employer payroll burden, comprising union janitorial benefits that follow the Association's own janitor allocation and the reimbursed management-office payroll taxes, unemployment tax, and health insurance carried to ancillary by the burden-follows-payroll correction (§D-1). Several operations can be read from the corrected columns directly — cable nets about +$5,400 and Wi-Fi about −$4,400 on their own discrete accounts — while the remainder carry allocated shares of consolidated accounts, so no per-service result can be read for them; storage revenue alone is $103,600 against an unknown allocated cost. The association should produce a per-service P&L (cable, Wi-Fi, storage, laundry, valet) and the allocation methodology, so owners can see the result of each ancillary operation — the same per-activity detail the Form 1120-H taxable-income method requires (Exhibit G). The corrected classification applies one deduction-cap methodology to the two below-market member-facing operations to which it applies; account 6590 (hospitality room and locks and keys) is treated as an allocation split, consistent with Workpaper C, and not as a deduction cap: each operation's expense is retained in the ancillary column only up to its matching nonexempt revenue, with the excess reclassified to assessment. Hancock Market's $95,000 is capped at its $6,000 of matching market rent, moving $89,000 to the assessment column; the JHC 44th-Floor Lease's $36,000 is capped at the $5,200 of matching hospitality-room fee revenue, moving $30,800 to the assessment column. The lease is thus allocated between the columns rather than reclassified wholesale — it carries mixed characteristics, the member-benefit Club 44 use alongside the commercial lease arrangement — and the cap ties each operation's ancillary presence to the nonexempt revenue it actually generates, because presenting these operations as wholly loss-generating ancillary businesses misstates both columns — and the Hancock Market and 44th-Floor Lease deductions are among the items on which the Association's two return preparers applied materially different methodologies, as analyzed in the July 4, 2026 Exempt-Function Classification & Tax Crosswalk (WP-C / Exhibit C).

Two of these ancillary operations run at recurring, structural losses, which carries a tax dimension beyond the budget: under the analysis of Portland Golf Club v. Commissioner, as this report reads that authority, losses from an ancillary commercial activity conducted without a genuine profit motive may not be available to offset the Association's taxable non-member income, and the deduction limitations of IRC §277 can independently restrict that offset on a regular return. The return preparer should evaluate whether the FY2025 deduction structure assumes an availability that may not hold — a point developed further in §D-14.

Management discloses neither the profitability nor the fee-setting basis of any individual ancillary operation. For none of the Association's ancillary activities — the property manager's apartment rent, unit charges, storage room rental, hospitality room, or the laundry room — does management present the revenue, the directly attributable cost, the resulting profit or loss, or the basis on which the fee or rate was last set or adjusted. The consequences are specific rather than abstract. *Unit charges* ($24,100) are presented as a single net figure with no separation of labor from materials, so the Board cannot tell whether the charge recovers the Association's cost of the work, marks it up, or subsidizes it — and cannot set the charge rationally without that split. *Storage room rental is the largest recurring ancillary operation at $103,600 — the only one exceeding $33,000 per year, apart from the cable and internet charges segregated from assessments effective January 1, 2026 and the sale and lease processing fee — yet it is carried against an unknown allocated cost, so the one ancillary activity most likely to be materially profitable or loss-making is the one the Board can least evaluate.*

Chronology of Board-approved storage rental fee adjustments. *Storage rental is the Association's largest recurring ancillary operation, and its pricing history is documented from two independent records that together span the period examined. A single owner's account ledger reconciliation covering January 1, 2010 through July 12, 2022 carries an annual storage charge of $300 in 2011 and $312 in 2012, and $312 in every year thereafter through 2020; the charge rises to $337 beginning in 2014 only because a $25 annual bicycle-storage fee was added alongside the unchanged $312 locker rate. The Board minutes reviewed, covering July 18, 2016 through July 18, 2026, record no storage or locker fee increase before* ***February 23, 2023****, when the Board approved the first documented adjustment; further increases were approved on* ***August 21, 2023*** *and* ***August 19, 2024****. The Association's own rate tables for account 3590 quantify those two adjustments as a* ***3% increase for FY2024-25*** *and a* ***2% increase for FY2025-26****, applied across all five locker types (monthly rates rising from $15.45, $21.63, $26.78, $40.17 and $51.50 to $16.23, $22.72, $28.14, $42.20 and $54.11 respectively) and across the six storage-room types ($262.65 to $309.00 per month, rising to $270.53 to $318.27). The same schedule, last updated May 14, 2026, records no further increase for FY2026-27, noting that rates are to stay the same as the prior year. Bicycle storage is charged at a flat $25.00 per spot per year, unchanged across all three columns — which corroborates the ledger decomposition above. The two records overlap between 2016 and 2022 and agree: the locker rate held at $312 from 2012 until the first Board-approved increase in February 2023 — approximately eleven years — after which three adjustments followed within roughly eighteen months. This chronology is contemporaneous evidence that recurring ancillary pricing was reviewed infrequently during the period examined. What that infrequency cost is a separate question, and the revenue comparison below measures it.*

Long-term recurring ancillary revenue. *The Association's audited financial statements permit a fifteen-year comparison of ancillary revenue by line, FY2009-10 against FY2024-25. Read in aggregate the segment appears to have grown strongly — $287,461 to $1,075,120, a compound annual rate of 9.19% — but that figure is dominated by reserve interest income, which rose from $47,007 to $907,177 (21.82% compounded) and is investment return rather than a price the Association sets. Separating the operations the Association actually prices produces the opposite picture. Six recurring operations — store rent, the Association's apartment, valet rent, storage rental, the laundry room, and the hospitality room — produced $173,597 in FY2009-10 and $164,735 in FY2024-25. Recurring ancillary revenue therefore* *declined in nominal dollars across fifteen years, a compound annual rate of −0.35%, while CPI-U rose approximately 47.1% cumulatively over the comparable period (March 2010 to March 2025), or about 2.61% annually. Had recurring ancillary revenue merely tracked that index it would stand at approximately $255,361; it stands at $164,735 — roughly $90,626, or 35.5%, below the inflation-adjusted level, a divergence of about 2.96 percentage points a year. Storage rental, the largest recurring line, grew 1.21% annually against an inflation-adjusted $120,394, a $22,336 difference on that line alone. The Association's own category detail for account 3590 carries the intervening years and shows the same pattern from the inside: actual storage and bike rental revenue rose from $89,550 in FY2010-11 to a peak of $107,844 in FY2014-15, then declined in nine of the ten years that followed to $98,058 in FY2024-25 — 9.1% below the peak, and a compound rate of 0.65% a year across the fourteen-year span. Actual revenue has fallen in each of the three years since the first rate increase was approved, and the FY2024-25 actual came in $14,062 below its own budget.*

Two qualifications are essential to reading those figures. *First, revenue reflects both price and volume. An operation's revenue can move because a rate changed, because usage changed, or both, and transaction volume in particular may vary materially from year to year. These figures measure the long-term growth of recurring ancillary revenue; they do not establish the rate history of any individual charge. For storage the two can be separated, because the Association's rate tables carry both: 894 lockers (706 assigned, 145 rented, 18 available for rent, 25 unavailable), 17 storage rooms all rented, and 250 bicycle spots of which 191 are rented, alongside the per-unit rates. Revenue therefore fell over the last decade while rates rose, which locates the movement in occupancy rather than in price — a distinction the budget itself nowhere draws, and one the Board would need in order to judge whether a rate increase raises revenue or accelerates vacancy. Second, the FY2009-10 apartment-rent figure is annualized from two months of recorded activity rather than a full year. That line is 12.4% of the FY2009-10 recurring base and the only one of the six that grew; excluding it entirely, the remaining five fall from $151,997 to $131,735, a compound rate of −0.95%. The estimate therefore works against the comparison rather than for it. Transaction-dependent charges behaved differently, as would be expected of fees tied to activity rather than to a periodically set rate: sale and lease processing rose from $37,692 to $106,556 (7.17% compounded), and moving fees, for which no FY2009-10 comparative is available, stand at $19,374. Those movements track transfer volume and are not evidence about pricing.*

The deficiency is the absence of review, not the level of any rate. *Below-inflation growth in recurring ancillary revenue is not improper in itself. A Board may decide to price a member amenity below cost, and the exempt-function analysis at §D-14 assumes that some of these operations are deliberately subsidized. What the record does not contain is evidence that the Board ever made that decision on this information. There is no operation-level profit-and-loss reporting, so the Board cannot see which operations carry the segment's $452,351 loss or how far assessments subsidize them; no documented periodic review of recurring rates; and no market, cost, or inflation analysis supporting any rate that was set. Nor, consequently, is there a basis on which the Board could evaluate what these pricing and allocation choices do to the Association's taxable income under §528. Fifteen years of recurring ancillary revenue falling in nominal terms is the observable consequence of pricing that was not systematically reviewed — and it is that absence of review, reporting, and support, rather than the level of any particular rate, that this report identifies as the deficiency.*

The property manager's apartment rent is the below-market, renew-by-assumption item addressed above; its profitability is unknowable for the same reason. And for the hospitality room and locks & keys, we have limited the deductions recognized to the income each actually earned, because expense claimed beyond the related income would convert a member-service fee into a subsidized activity without disclosure. The through-line with the per-service P&L request above is the same: the Association runs several fee-based operations as a landlord and service provider, sets prices on each, and reports none of them in a way that lets the Board judge whether the prices are right or whether owners are subsidizing users. Fee-setting without a per-operation P&L is rate-making in the dark.

*The same evaluate-the-economics logic applies to the building's member amenities and licensed concessions, which the budget carries without a cost-benefit showing. The Board should evaluate the cost of each of the following and whether it is priced or subsidized appropriately: the **Potash Market** (the Hancock Market grocery concession); **Hi-Lite Cleaners** (the dry-cleaning concession); the **Pool**; the **Health Club**; and the **Hospitality Suite**. For each, the question is the same one the ancillary operations raise: what does it cost the Association to provide, what (if anything) does it recover, and has the Board consciously decided the net cost is a member benefit worth funding — or is the subsidy simply inherited year over year without review? These are member amenities the Association may well choose to subsidize; the finding is not that they should be cut, but that the Board should see each one's net cost and decide deliberately rather than by default.*

***Board-approved fine income was posted and/or reclassified into the late-fee account rather than recorded as fine revenue.** Fines were historically recorded as Miscellaneous Revenue (account 3990), which in FY2025-26 shows almost nothing — it is projected at $6,400 against a $20,000 budget. Yet the Association budgets Miscellaneous Income at $20,000 again for FY2026-27, unchanged from the level it carried when fines flowed to it; because the fines now flow to late fees instead, that $20,000 is not reconcilable with their migration: it either double-counts the fine income already carried in the $32,000 late-fee line, overstates Miscellaneous Income by roughly the $13,600 gap between it and the $6,400 the account now generates without the fines, or presumes a resumption of the genuine late-fee billing the Association abandoned — a resumption the records do not show (see the late-fee finding). The Board-approved fines levied during the year — a $250 fine in February, a $350 fine in April, and a separate $2,500 fine in April — were not lost from the books; they were posted and/or reclassified out of Miscellaneous Income and booked into the late-fee account (3830), whose projection has correspondingly risen to $35,300. That resolves where the fine income went, but it creates a different problem: fines and late fees are commingled in one account, so neither the Association's fine activity nor its late-fee activity can be read from the books, and the late-fee line reports fine revenue as though it were late-fee revenue. Combined with the $24,500 of reductions against $42,500 assessed, account 3830 no longer represents what its title says. The Board should require an accounting of every fine levied in 2026, the entries posting and/or reclassifying each from Miscellaneous Income to late fees, the collection status of each, and the separation of fine income from late-fee income going forward. These facts also bear on the community-association-manager recordkeeping standards under 68 Ill. Adm. Code 1445 and the Community Association Manager Licensing and Disciplinary Act (225 ILCS 427), under which the managing agent is responsible for accurate books and records; posting* *fine income into the late-fee line, and the absence of a supporting waiver or adjustment ledger, are recordkeeping matters the Board should weigh. This report states the facts and expresses no view on whether any licensing standard has been violated.*

The reconciled late-fee activity: $24,500 of credits, waivers, and write-offs against $42,500 assessed, supported by a single documented Board approval. *A month-by-month reconstruction of late-fee assessments, credits, and write-offs was prepared from the Association's accounting records to quantify the activity and reconcile the reported adjustments (Companion Working Paper WP-LF-1). For the period March 2025 through February 2026, the records reflect $42,500 of late-fee assessments and $24,500 of late-fee credits, waivers, and write-offs — the dollar-equivalent of 98 standard $250 late-fee adjustments. Over the same period, the Board records reviewed documented only one Board-approved waiver, totaling $250. This does not establish that the remaining adjustments lacked authority; it establishes that the records reviewed did not identify Board documentation supporting them, raising significant questions regarding authorization, delegated authority, internal controls, and the consistent application of the Association's collection policies.*

Investigation Summary (March 2025 – February 2026)	***Amount***
Late fees assessed	*$42,500*
Late-fee credits, waivers, and write-offs	*$24,500*
Equivalent standard $250 adjustments	*98*
Board-approved waivers identified in the records reviewed	*1 ($250)*

Measured against the $42,500 assessed during the period, the $24,500 of credits, waivers, and write-offs reversed or forgave roughly 58% of assessed late fees. A level of receivable adjustment of that magnitude ordinarily warrants clear written authorization procedures, documented approval, and a complete audit trail — the same controls the Association applies, or should apply, to any other reduction of a recorded asset. The concrete facts carry the finding: $24,500 credited or written off, the dollar-equivalent of 98 standard $250 adjustments, supported by a single documented $250 Board approval.

These adjustments do not stand alone. After recurring late-fee credits and waivers reduced reported late-fee revenue, management began recording substantial fine revenue in the late-fee account (3830) rather than in Miscellaneous Income (3990), offsetting much of the decline so that the true fall in recurring late-fee collections is not visible from the account. The combination of significant receivable adjustments and the changed revenue classification impaired the late-fee account's usefulness as both a budgeting tool and an indicator of collection performance: the account no longer provides a dependable baseline from which to project FY2026-27 late-fee revenue.

Cable and internet — a mid-year change in billing method that raises a per-residence equity problem. *Effective January 1, 2026 — after the first four months of FY2025-26 — the Association segregated cable television and internet from the regular assessment and began* *charging owners a **flat monthly fee for each service**. The Finance Committee announced this change in its June 30, 2025 budget transmittal, advising owners that the January 2026 bill would separate cable from the assessment (Appendix E). Two consequences follow for this budget. First, on the numbers: because the change took effect a third of the way through the fiscal year, the FY2025-26 YTD actuals blend four months under the old (bundled-in-assessment) method with the balance under the new flat-fee method, so the year-to-date figures on these lines are not a clean run-rate and the FY2026-27 projections built from them should be confirmed to reflect a full year of the new method rather than an annualized blend. Second, on equity: this report uses four unit counts, which are not interchangeable. Legal Units: 703, the count in Declaration Article II §1, the allocation in Exhibit "B" totalling 100.00%, the recorded PINs, and Management Agreement ¶1. Percentage-interest Units: 703, the same set. Billing positions: 703, the roster against which flat per-unit charges are assessed. Cable and Wi-Fi connections: approximately 645 per the Association's service records, leaving roughly 58 billing positions carrying a charge without a corresponding connection. The manager's and janitor's apartments are Common Elements; they are not Units, hold no percentage interest, and are excluded from the 703. Physical residences number fewer than legal Units because Units have been combined over time; this report does not state a physical-residence count, as no record in the materials reviewed establishes one as of a stated date. On that taxonomy, the flat per-service fee is charged per legal unit (703 legal units on the billing roster — against approximately 645 connections actually delivered), while the providers deliver and invoice the Association for roughly **645 active connections**. An owner whose residence combines two or more legal units therefore pays two, three, or more identical monthly fees for a single physical connection, at no additional cost to the Association — materially different charges for substantially identical service. Internet is the contrasting case, and the distinction is the point: the cable overcharge arises because a combined residence draws only one connection regardless of how many legal units it spans, so the Association's cost does not rise with the unit count; internet is different because a combined residence often does consume more equipment, wiring, and capacity, so there the per-unit count may genuinely track the Association's cost and per-unit billing is not self-evidently inequitable. The same principle — allocate the charge by its underlying cost driver — produces opposite conclusions because the drivers differ. The Board should obtain the providers' invoices and the billing roster, identify the combined-unit residences billed multiple cable fees, and adopt a per-residence cable allocation consistent with the ~645 connections actually provided; the internet allocation should be evaluated separately on the equipment and capacity actually delivered to each residence.*

The Declaration designates the manager's apartment and the janitor's apartment as Common Elements. They are Common Elements, not condominium Units; neither carries a separate percentage interest, and neither is included in the 703-Unit schedule. This report's analysis addresses the manager's apartment, for which a lease chronology and documentary record were available, and refers elsewhere to the Engineer's Unit history in connection with the Association's leasing practice. The present occupancy of the janitor's apartment, and the treatment of any costs associated with it, were not established in the records reviewed and remain subject to verification. Where this report used "Unit 4616" or "Association-owned unit," the terminology was imprecise as to legal character; 4616 and 6501 are space designations used in the Association's records and in the reserve study, and "Association-Owned Units" is the reserve consultant's label, quoted as such.

The property manager's apartment — a below-market lease the budget renews by assumption. *The manager's apartment incurs no assessment expense and no property-tax expense — because it is a Common Element under the Declaration and not a condominium Unit, it carries no percentage interest against which an assessment is levied and no separate parcel obligation; its only separately identifiable direct expense is the HO-6 policy included within the $1,580 owned-units insurance line (§D-5). Its rental income assumes* ***no rent increase since at least February 1, 2024, and a 0% increase upon renewal when the current lease expires February 1, 2027*** *— a date that falls five months inside the FY2026-27 budget year. The budget therefore does not merely record a below-market lease; it presupposes the renewal decision, at the frozen rate, before the Board has made it. A rent unchanged for three years through the sharpest surge in Chicago-area apartment rents in a decade, extended by assumption into a fourth, is not a market outcome; the two ordinary explanations are the ones the Engineer's Unit history already taught this Association: either the apartment's condition cannot command market rent, or the tenant's relationship to management or the Board is doing the work the market should be doing. Both explanations demand investigation, and both are checkable: the apartment's condition and capital-improvement history, a market-rent comparison for the tier, the lease terms and renewal history, and the tenant's identity and any affiliation with management, the Board, or their relatives. The February 2027 expiration also presents the corrective opportunity: the Board should direct a market-rent analysis before renewal, not budget past it. The reserve-study implication runs in parallel: the apartment's interior components (kitchen, baths, mechanicals, finishes) belong in the reserve study, and the record establishes that they are in it. The 2022 study carries both on-site apartments jointly at priority-chart line item 5, under the consultant's label "Association-Owned Units, 4616 & 6501: Renovation, Phased," at a $70,000 renovation allowance for each space, with the space designated 4616 scheduled by 2032 and the space designated 6501 by 2049. This report's statement that the apartment's components were excluded from the study was incorrect. What the record does not contain is any disclosure to owners of how these spaces are treated, funded, or occupied, or any condition assessment or capital-improvement history against which the study's allowance can be tested — and that absence sits on top of the roughly $67.7M of high-priority replacement scheduled beyond the study's 30-year period, on the author's totaling — while its dilapidation, if that is the explanation for the frozen rent, is itself deferred maintenance the study should be capturing.*

Limited ability to evaluate lease revenue — Hancock Market. *The proposed Hancock Market rental revenue is presented without supporting documentation. As of the date of this report, the Board has not received the tenant's annual gross sales disclosures required under the lease. Consequently, the Board lacks the information necessary to evaluate compliance with the lease's percentage-rent provisions, assess whether all rent due has been collected, or determine whether the proposed revenue budget is reasonable. This is a recurring failure, not a first occurrence — and it means the revenue side of the Hancock Market relationship is unverifiable by construction in the same budget whose expense side (the 5/8 property-tax pass-through, §D-4) is also undocumented. The Association is thus carrying both halves of a commercial lease on management's word.*

Recommendation: *Management should provide the Board annually with (1) the tenant's gross sales certification or report required by the lease, (2) the calculation of any percentage rent due, (3) a reconciliation of amounts billed and collected, and (4) confirmation that lease obligations have been independently reviewed before the budget is approved. The same* *annual discipline should apply to the manager's-apartment lease: a market-rent benchmark, the renewal terms, and the basis for any below-market rate, presented to the Board before each budget cycle — and, given the February 1, 2027 expiration, before any renewal is executed.*

Late-fee revenue and collection practices. *The proposed budget assumes late fees will continue as a recurring source of operating revenue, budgeting $32,000 for FY2026-27 (an override of a $0 model base). The Association's records do not support that assumption — but seeing why requires distinguishing four measures the budget conflates: late fees assessed; late fees outstanding at a point in time; credits, waivers, reversals, write-offs, and other reductions; and the net activity recorded in account 3830. WP-LF-1 reconstructs* ***$42,500 of late fees assessed*** *against* ***$24,500 of credits, waivers, write-offs, reversals, and other reductions*** *during March 2025 through February 2026 — the dollar-equivalent of 98 standard $250 late-fee adjustments. Net activity is what remains after the reductions: account 3830 recorded $750 of net activity across the first four months of FY2025-26 (September–December). And the account also carries fine income posted and/or reclassified out of Miscellaneous Income (see the fine-income finding in this section), so the $26,500 booked to date and the $35,300 projection are account-level figures, not a clean measure of late-fee revenue alone. The worksheet's own explanation shows the tension on its face: it states the intent is for owners to pay on time so that late fees do not occur, while the same worksheet budgets $32,000 of them as recurring revenue. Board members and management have attributed those reductions to the Association's practice of waiving late fees for owners enrolling in SNAPP — Sudler's No-check Automatic Payment Plan, the managing agent's ACH auto-payment service — and that attribution is reported here as the Board's and management's explanation. The accounting records establish that the reductions occurred. What the Association did not produce is transaction-level records permitting the individual adjustments to be matched to particular owners, dates, or stated reasons: an owner's inspection request was denied, and the Association's counsel represented that detailed waiver, write-off, credit-memo, and adjustment logs do not exist. The nonproduction does not negate the accounting fact that the reductions occurred; what it prevents is independent verification of the explanation. The board-packet figures measure something narrower still: the May 11, 2026 aging summarizes late fees at "(8) $2,500.00," but that figure is late fees outstanding — the balance carried before that month's late fees were posted — not the fees assessed, and it lags the actual activity by a posting cycle; the gap between the two reflects the reductions quantified above. Two problems follow. First, the SNAPP late-fee waiver has* ***no basis in the Association's Rules and Regulations****, and no Board-adopted late-fee or waiver policy authorizes it; management is reversing late fees on enrollment without documented authority — the same authorization gap the report identifies for the late-fee charge itself, the reserve waiver, and the Holiday Fund advance. Second, the gross detail that would quantify the churn — a transaction-level record of late-fee charges, waivers, and reversals — is the record the Association says it does not keep. Responding on July 6, 2026 to an owner records request under 765 ILCS 605/19, the Association's counsel stated that no detailed late-fee ledger of that kind exists and that no write-off, credit-memo, or account-adjustment logs exist. That representation is difficult to reconcile with the account's own reported activity: a revenue account cannot post the net-negative months shown for account 3830 (September and December of FY2025-26) without individual credit, reversal, or adjustment entries posted against it, and those entries necessarily reside in the general ledger from which every monthly* *financial summary and the audited annual figure were compiled. Either that transaction-level detail exists in the ledger and was not produced, or the Association is waiving late fees on SNAPP enrollment with no transaction record at all — a records-and-controls failure in its own right for an account the Association routinely credits. Either way, the net monthly figures are the only late-fee record the Association isolates, and they cannot be disaggregated into charges and waivers.*

The SNAPP waiver is also a governance question of authority and consistency. *A late fee is Association income, and waiving it gives up an Association asset — authority that ordinarily rests with the Board unless the governing documents or a Board-adopted policy delegate it. The controlling question is therefore not whether a waiver was granted but who authorized it and under what authority: whether management is administering a Board-adopted collection policy or has created the practice on its own. The practice also alters the financial consequences the governing documents fix — a prompt-paying owner effectively subsidizes a late-paying owner who enrolls and is forgiven — and, granted only to owners who enroll or who know to ask, it raises consistency-of-treatment concerns. Because SNAPP is the managing agent's own program (Sudler's No-check Automatic Payment Plan), the waivers spend an Association asset to drive enrollment in a Sudler program — so who decided that Association revenue should be sacrificed to that end, and whether the Board did, is a further question. These governance and fiduciary questions are developed in a companion governance memorandum furnished under separate cover; this report states the facts and expresses no legal conclusion.*

Two structural points about the late-fee line reinforce the concern. First, ***late fees may lawfully be assessed only on delinquent assessments, not on other charges****. Under Crooks v. Hidden Grove and related Illinois authority, a late fee is enforceable as a permissible charge on unpaid assessments; extending late fees to ancillary or fee-based balances (unit charges, storage, and similar) risks recharacterization as an unenforceable penalty. The late-fee line (3830) is accordingly budgeted as assessment-side revenue only, and the Board should confirm the Association's late-fee practice is in fact limited to delinquent assessments. Second, the effective rate is extraordinary — the current structure can approach a* ***100% effective interest rate per month*** *on a delinquent balance (not per year) — which cuts against the "recurring revenue" framing in two ways: a rate that steep invites the very waiver activity the credits reveal, and it exposes the Association to serious fairness and enforceability challenges (a monthly rate of that magnitude is far more vulnerable to recharacterization as an unenforceable penalty than a conventional late fee). The combination — a high nominal rate, heavy discretionary waivers, and revenue running far under budget — suggests the Board should* ***reconsider the late-fee policy itself****, reducing the amount to a level that is consistently enforceable and actually collected, rather than budgeting revenue from a policy the Association does not uniformly apply.*

From a governance perspective, late fees are more than a source of ancillary revenue. They are an enforcement mechanism intended to encourage timely payment of assessments and to promote equitable treatment among owners. If late fees are routinely reduced, waived, or credited, the Board should ensure that such actions are authorized under a formally adopted policy, applied consistently to all owners, appropriately documented, and reflected in the *budget assumptions. Otherwise, the Association risks overstating anticipated revenue while creating uncertainty regarding the administration of its collection policies and the equitable enforcement of the governing documents.*

D-9. The July 22, 2026 color-coded spreadsheet: exempt-function classification corrections and error flags

Full detail, tax crosswalk, and regulatory basis in the companion supplement ("Exempt-Function Classification Corrections & Tax Crosswalk," July 4, 2026). Summary here for integration.

The Association's Form 1120-H is a useful evidentiary source precisely because the return separates the Association's activities into exempt-function and taxable operations and turns on the allocation of income and expenses between them. As the Instructions for Form 1120-H explain, the election allows an association to exclude its exempt function income from gross income — so the return necessarily reflects management's and the preparer's own judgments about which activities are member (exempt-function) and which are non-exempt, and how expenses are attributed between them. Those are the same judgments the budget makes through its assessment/ancillary columns, which is why the return is a benchmark against which the budget's classifications can be tested.

The same divergence is visible in the budget's own drafting history. *The proposed FY2026-27 budget draft dated June 12, 2026 carried one set of assessment/ancillary allocations, prepared under the former auditor's methodology (Picker & Associates); the draft dated July 3, 2026 carried a different set, conformed to the exempt/nonexempt allocation percentages reflected on the Association's Form 1120-H for the fiscal year ended August 31, 2025 — the new auditor's methodology. The two differ on both sides of the ledger. On the revenue side, four accounts changed columns outright: Unit Charges (3500) and operating Interest Income (3700) moved from ancillary to assessment, while Sale & Lease Processing Fees (3900) and Moving Fees (3930) moved from assessment to ancillary; the newly segregated Cable Television (3480) and Wi-Fi (3490) were placed in ancillary. This report adopts the new auditor's treatment of the processing and moving fees, but not of Unit Charges and operating Interest Income: both are nonexempt income under Treas. Reg. §1.528-9 rather than exempt-function income, and both are corrected back to ancillary at (a) below. On the expense side the movements are larger and more numerous. The management-office accounts moved furthest — management fees (8000) and office staff (8050) from the June 12 draft's 15% ancillary allocation rate to 56%, and the staff bonus (8060) from 10% to 56% — and audit and income-tax preparation (8300) from 15% to 75%. Three accounts tied to identifiable commercial space moved to 100% ancillary: locks and keys (6590) from 43.5%, Hancock Market (6780) from 6.3%, and the JHC 44th Floor Lease (7500) from 14.4%. Janitorial wages (4070) and janitorial union benefits (4620) rose to 14%. Moving the other way, most of the small across-the-board allocations went to zero — office supplies, copier and printing, postage, communications, several repair accounts, the loading-dock accounts, pagers and radios, the security system, city safety and the compactor — and the utility allocations fell (electricity 15% to 10%, water 15% to 5%, chilled water 15% to 10%). Insurance premiums moved from a 15% allocation to a flat dollar amount. The allocation percentages compared in this paragraph are the two drafts' own rates; none is the 15% investment-management allocation documented on the FY2025 (2024) Form 1120-H (Appendix A) and discussed below.*

The 56% management-office allocation is a combined figure. *The investment-management component reflected in the FY2025 Form 1120-H is reported separately on the return, but it is not a distinct general-ledger expense account. It represents a portion of the Association's management-office function — management fees, management-office payroll, and management-office bonuses — allocated to investment management for federal income-tax purposes. The 56% is therefore a single combined management-office allocation, and this report does not add a separate investment-management percentage to it. That matters because the same 56.0% carries through wherever management-office compensation is allocated — the management fee, the office staff, the bonus, and the employer payroll burden that follows those wages — and applying a further investment-management percentage on top would count the same costs twice. The return's components are themselves documented at Appendix A: approximately 41% of the Sudler management-office and headquarters overhead is allocated to ancillary operations, and a further 15% of those same costs to investment management. The previously discussed 56% combined allocation consists of the tax return's documented 41% ancillary-operations allocation plus a separate 15% investment-management allocation applied to the same management-office and headquarters overhead costs; the two are the components of that 56%, not percentages layered on top of it. Treasury Regulation §1.528-10 requires that expense serving both exempt and non-exempt functions be allocated on a reasonable basis, and two features of the record bear on whether the investment-management component meets that standard: the Association's investment portfolio consisted predominantly of passive certificate-of-deposit investments — roughly $18.2 million of the $21.9 million reserve portfolio — and the records produced identify no usage measurement, time study, or other stated basis for either percentage. This report draws no conclusion on the point; it observes that the support for the allocation cannot be evaluated from the records produced, which is the same limitation the 56.0% figure carries.*

Why the difference matters. *These are changes in accounting and tax methodology, not changes in the Association's operations: the same lockers, the same laundry, the same leases, presented on two different bases. But the basis determines what the Board is shown. It fixes the reported result of every ancillary operation, because it settles both which revenues count as ancillary and how much common overhead those operations absorb. It breaks comparability between drafts and between years, since a line's movement may reflect a reclassification rather than any change in the underlying activity — the same comparability problem the two returns present, now inside a single budget cycle. And it carries into the adopted budget, whose assessment and ancillary columns make the same judgments the return makes. What does not change is the direction of the result: the ancillary segment operates at a deficit under either methodology, and on the final package that deficit is $452,351.*

The comparison across the Association's own filings sharpens the point. The Association's two return preparers applied materially different methodologies for identifying nonexempt income and allocating deductions under Form 1120-H; the filings diverge on at least seven items — Unit Charges, operating Interest Income, Sale & Lease Processing Fees, Moving Fees, Miscellaneous Income, the Hancock Market deductions, and the JHC 44th Floor Lease deductions — differences that go to which revenue is exempt-function and which deductions are directly connected to nonexempt income. The question this raises is not whether either preparer's individual allocation decisions were defensible; it is that the Association has lacked *a consistently applied tax methodology, so its returns, budgets, and financial statements cannot be compared reliably across periods. Exhibit H answers that defect directly: it applies one account-level methodology consistently throughout the analysis — the Association's own most recent Form 1120-H allocation, applied at the account level, with CIA's corrections stated and reconciled line by line — so the Board can evaluate every figure in this report on a single, documented basis.*

(a) Seven exempt-function classification corrections (green cells). *Revenue: Unit charges $24,100 and operating Interest Income $15,000 corrected to* ***Ancillary*** *(Treas. Reg. §1.528-9; Supplement §§2–3); Sale & lease processing fees $106,300 and Moving fees $28,500 corrected to* ***Ancillary*** *(consideration for a specific administrative service rendered in connection with a particular unit or transaction, hence non-exempt for-service income — the same basis on which owner-paid Unit charges (3500) are treated as non-exempt; Supplement §4). Expenses: Hancock Market $95,000 and JHC 44th floor lease $36,000 corrected to* ***Assessment*** *(member amenities at sustained structural losses — Supplement §5(d)–(e); Portland Golf Club and Concord Consumers Housing Cooperative on exempt-function character and profit motive); Locks and keys split $3,900 Assessment / $3,000 Ancillary. Exhibit A's account-level column architecture reflects the exempt/nonexempt classification on the FY2025 (2024) Form 1120-H (Appendix A). The governing definitions are set out in the Instructions for Form 1120-H: exempt function income is member assessments, dues, and fees received from condominium owners (subject to the 60%-of-gross-income qualification test), and an electing association's taxable income is its gross income other than exempt function income, less the deductions directly connected with producing that non-exempt income, plus the $100 specific deduction. This tax treatment is consistent with the Association's own governing purpose: Article V, §2 of the Declaration provides that the Association exists solely to operate and administer the property and is not organized as a commercial enterprise — the same member-service character that underlies the exempt-function treatment of assessments on the return. The building context reinforces the point: the HOA governs only the residential floors (44–92), approximately 44.64% of the total building's floor area; the commercial and non-residential portions of the former John Hancock Center are outside the Association's governance scope. The assessment/ancillary classification on the budget and the return must reflect the activities and income of the HOA's 44.64% share of the building, not the full mixed-use building. Those two definitions are what make the assessment/ancillary split on the budget consequential: mislabeling a member (exempt-function) item as ancillary, or an ancillary item as a member assessment, moves it across the very line the return is built on. Adopting the budget as the HOA columned it would embed one preparer's classification — on items where the Association's own filings have diverged — into the Association's official financial plan, perpetuating the inconsistency rather than resolving it.*

(b) The highlighted year-to-date and projection values serve three distinct analytical purposes — corrections, verification flags, and analytical year-end adjustments. *They are not one kind of annotation, and none is an adjustment to the Association's accounting records. First, corrections: management's supporting budget-detail schedules did not agree with the Association's actual accounting results through April 30, 2026, and CIA corrected the reported year-to-date amounts for analytical purposes. The flags on 9020 Reserve Interest reflect the two matters addressed at §D-10 (the unreversed $95,597.84 Accrued Interest Receivable and the market-value investment basis); the flags on 3930 Moving fees, 5000 Electricity, 6060 Compactor, 6505 JHC misc repairs, 6670 JHC Rig repairs, 6690 JHC Freight* *elevator, and the 7980/7985/7990 loading dock group correspond to FY2024-25 audit accruals that management's December 2025 REV AUDIT entries reversed. Second, verification flags: the highlighted year-to-date values for 3000 Assessments, 3480 Cable Television, and 3490 Wi-Fi are not corrections. In each of the four months reviewed — January, February, April and June 2026 — the general ledger documents an RCLS AR POSTING that debits Cable Television Revenue (3480) and Internet Charges (3490) and credits Assessment Revenue (Account 3000) by the same amount, leaving those two revenue accounts at zero, notwithstanding the Board's segregation of those charges from assessments effective January 1, 2026; management's budget materials reflect that accounting treatment (§D-11). These values identified the accounts to be verified against the supporting schedules when the July 20, 2026 owner package was issued. On verification the finalized package carries the same charges in both places — the double-count documented at §D-11. Third, analytical year-end adjustments: the Total Projected column includes CIA's analytical year-end adjustments — most notably, approximately $64,000 added between Hancock Market (6780) and the JHC 44th Floor Lease (7500) to recognize the year-end lease-property-tax accrual (§D-4; §D-10). These are analytical projections only, not adjustments to the Association's records.*

***(c) Two values flagged as suspected presentation errors** in management's reported year-to-date actuals — Storage room rental ($67,462) and Miscellaneous revenue ($900); both fall within the corrections category above.*

***(d) Data-integrity note:** cable/Wi-Fi revenue rises 49–50% with the full complex in the ancillary column (cf. Supplement §6). The reserve-contribution line carries a separate CIA annotation: the budget states only the bare $1,480,000, and the workpaper adds CIA's "waived per finance committee" designation identifying the $973,400 shortfall against the study — a label supplied by CIA, not text drawn from the budget.*

(e) Subsequent update — year-to-date actuals through June 30, 2026. The corrections above reconciled management's schedules to the Association's results through April 30, 2026, the information the Finance Committee used to develop the budget. CIA subsequently extended the actual results through June 30, 2026; management's year-end projections and the proposed-budget figures were not correspondingly updated. CIA independently compared the June 30, 2026 year-to-date actual results to management's unchanged FY2025-26 year-end projections presented in Exhibit H to determine whether those projections continued to reasonably reflect expected year-end operating results. As of June 30, 2026, with two months remaining in the fiscal year, seven accounts had already exceeded management's full-year projected amounts. On the expense side: Insurance deductibles ($144,027 actual against a $30,051 projection), Electricity ($1,089,047 against $1,029,559), Communications ($51,545 against $49,377), Office supplies ($16,250 against $15,500), Security system ($27,070 against $26,500), and ACM control ($1,400 against $1,000). On the revenue side: Unit charges ($33,879 against a $26,860 projection). The six expense exceedances total approximately $177,352; the single favorable revenue exceedance is $7,019; the net unfavorable effect is approximately $170,333, before July and August activity or any supported year-end credit, reversal, reimbursement, or reclassification. A year-to-date amount that has already surpassed a full-year projection is direct evidence that the projection is no longer attainable as presented unless such a supported adjustment occurs before year-end; the Insurance-deductible account is the principal driver, and the Electricity overrun is individually significant. Management's unchanged FY2025-26 year-end projections therefore no longer

reflected these known operating results and were not a reliable measure of expected FY2025-26 performance at that date. To the extent those projections continued to inform the evaluation of the proposed FY2026-27 budget, their reliability was correspondingly diminished (Exhibit H).

D-10. Year-end audit adjustments, REV AUDIT reversals, and CIA's analytical adjustments — how they affect the budget

*Source: the auditor's adjusting journal entries and adjusted trial balance for FYE August 31, 2025 (workpapers dated 12/19/2025). CIA reviewed the complete population of six audit-related journal entries. The discussion below addresses only those entries relevant to the matters analyzed in this report. The Association recorded the AJEs **effective-dated 8/31/2025** — the conventional date for audit adjustments, so the ledger's year-end balances agree to the audited financial statements. Reading what followed requires keeping five things separate: (1) management's recurring monthly accrual process; (2) the independent auditor's August 31 year-end adjusting entries; (3) management's December 2025 REV AUDIT entries, which reversed many but not all FY2024-25 audit accruals; (4) CIA's proposed analytical adjustments, which were not posted to the Association's accounting records and are presented solely for analytical and comparative purposes; and (5) accounting-policy differences, particularly management's treatment of reserve investments at market value rather than amortized cost. The reversals were not universal: the approximately $95,600 Accrued Interest Receivable was not reversed, and it remained recorded through the period reviewed — on the June 30, 2026 balance sheet at $95,597.84, on the balance sheet the accounting system generated July 7, 2026, and in the general ledger, which contains no reversing entry. The documentation demanded in this section is directed at management's post-audit accounting treatment, account by account; it does not advocate reversal of every audit entry — the over-accrual and basis corrections, for example, are not entries that reverse. Each AJE falls into one of the categories below (Exhibit D):*

Category	***Total***	***What was owed***	***Status / consequence***
A. Accrual-type adjustments *(auditor accrued income/expense)*	***$95,597.84 not reversed***	*Reversal at the start of FY2025-26, or relief of the balance at settlement*	***Reversed in many cases, not all.*** *December 2025 REV AUDIT entries reversed the moving-fee and expense-accrual adjustments; the $95,597.84 Accrued Interest Receivable (1410) was not reversed and remained recorded through the period reviewed — on the June 30, 2026 balance sheet, on the balance sheet generated July 7, 2026, and in a general ledger containing no reversing entry; the $115,000 federal income tax payable was settled off the books*

Category	Total	What was owed	Status / consequence
B. Over-accrual corrections *(auditor removed management's excess accruals)*	***$93,513.36***	*Post as of 8/31/2025 (never reverse)*	***Done via the effective-dated posting*** *— the correction landed in FY2025. Remaining significance: the over-accruals evidence estimate-driven accruals, and interim statements before the posting overstated both expenses and liabilities*
C. Basis corrections *(AJE #2 CD market-to-cost $19,379.54; AJE #1 fund balance $3.18)*	*$19,382.72*	*Post — and change the underlying bookkeeping method*	***Posted, method unchanged*** *— a recurring annual correction of an off-basis accounting method (see GAAP-basis findings below); FY2026 market-value bookkeeping presumably continues*

Accrual-type adjustments — disposition, account by account. *An accrual records income or expense in the period it is earned or incurred rather than when cash changes hands, and accruals are ordinarily reversed at the start of the next period so the same amount is not counted twice; the question here is which of the audit's accruals management actually reversed. Because the AJEs were posted effective 8/31/2025, each balance was confirmed on the ledger at the audited amount — 1410 Accrued Interest Receivable $95,597.84; 1381 Moving Fees Receivable $5,500.00; 2100 Income Taxes Payable $115,000.00; and the expense accruals within 2300/2310/2500. Management's December 2025 general ledger contains REV AUDIT entries reversing many of these accrual-type adjustments — the moving fees (AJE #6, $5,500.00) and the AJE #4 accrual legs on 6505 misc repairs ($10,171.92, nine separately identified invoices), 6670 rig repairs ($3,123.01), 5000 electricity ($2,872.10), 6690 freight elevator ($2,232.20), 7985 engineering ($1,773.35), 7980 dock maintenance ($174.10), and 6060 compactor ($40.50) — and the $115,000 federal income tax payable (AJE #5) was settled off the books. The reversals were not universal: AJE #3's $95,597.84 Accrued Interest Receivable was not reversed (the entry's first component is the auditor reversing the prior year's $63,040 accrual — proof of the identical omission in FY2025), and the 9360 unidentified-capital leg ($4,484.47; the account itself carried $294,412.80 of reserve-funded FY2025 spending under an "unidentified" caption) awaits the line-by-line match demanded at Exhibit F. Management's post-audit accounting treatment varied by account; conclusions regarding any individual balance require account-by-account analysis rather than generalization in either direction.*

The exception requires separate discussion. *Accrued Interest Receivable is interest the Association had earned but not yet received in cash, carried on the books as an asset. The chronology is documented at four points. First, the receivable was established by the FY2024-25 audit adjustment: the audit accruals included Accrued Interest Receivable of $95,597.84 (account 1410, AJE #3), recorded effective August 31, 2025. Second, it remained on the Association's June 30, 2026 balance sheet at the same $95,597.84, reported as a* *reserve asset. Third, the Association's accounting system continued to report that balance on the June 30, 2026 balance sheet generated from the system on July 7, 2026. Fourth, CIA reviewed the Association's general ledger through the period covered by this engagement and identified no journal entry reversing or otherwise removing the receivable; the December 2025 REV AUDIT entries, which reversed several other Category A accruals, contain no reversal of this asset. The receivable's continued presence on the books is therefore established from the general ledger itself, not by inference from the balance sheet alone. This report documents that the balance remained recorded; it does not address why. Its continued recognition requires documentary support demonstrating that the receivable remained valid and that subsequent interest receipts were properly applied; additional account-level detail is required to determine the resulting effect on FY2025-26 reserve interest income and reserve-fund reporting.*

***Three split accounts** carried both an accrual leg and an over-accrual leg in the same closing — Electricity ($2,872.10 / $13,007.66), JHC Loading Dock Maintenance ($174.10 / $5,834.00), and JHC Engineering ($1,773.35 / $3,566.00). Management simultaneously missed real invoices and over-estimated its blanket accruals on the same accounts — an indication the accruals were estimated rather than built from open invoices. Category B roster: Chilled Water $33,105.47; Delaware Lobby (capital) $28,730.00; Water $16,005.52; Electricity $13,007.66; Dock Security $12,116.00 (17.6% over-accrual on a fixed contract); 44th Floor Lease $6,000.00; Dock Maintenance $5,834.00; Engineering $3,566.00; Hancock Market $20.36 — constitute the entire credit side of AJE #4 and total $118,385.01; netting the Category A expense-accrual debits of $20,387.18 and the $4,484.47 debit to account 9360 yields $93,513.36, which ties to the entry's liability debits of $59,266.91 (2310), $24,245.53 (2500) and $10,000.92 (2300). The $93,513.36 figure is correct; the error was equating it to the sum of the nine listed items, tying exactly to the liability-side debits (2310 $59,266.91; 2500 $24,245.53; 2300 $10,000.92).*

***GAAP-basis findings: the books are not kept on the audit's basis of accounting.** AJE #2 is not routine housekeeping — it is the auditor's annual correction of management's investment accounting method. The entry debits the CD accounts $18,341.52 and $1,038.02 and credits Reserve Interest Income $19,379.54, captioned "to adjust CDs from market value to cost basis to agree with prior audit's held-to-maturity investment accounting standards." Three conclusions follow: management maintains the certificates of deposit within the $21.9M reserve investment portfolio (roughly $18.2M) at **market value** (what the certificates would be worth if sold today), recording unrealized gains and losses through Reserve Interest Income during the year; the audited statements are on **held-to-maturity amortized cost** (the price paid, adjusted over each certificate's life toward its maturity value and not marked up or down for interim market swings), so the auditor strips the unrealized amounts annually; and the caption's reference to the prior audit's standards marks a **recurring correction** of a method the effective-dated posting does not change going forward. AJE #3 completes the picture: management neither accrues interest systematically nor reverses prior accruals, so the auditor both unwinds the stale accrual and lays the new one annually. The 9020 tie-out is exact: client $837,937.62 + $19,379.54 (AJE #2) + $32,557.84 (AJE #3 net) = audited **$889,875.00**. The obligation to keep accurate records is the Association's own, independent of the manager: Article VI, §6 of the Declaration requires the Board to keep "full and correct books of account," and Article V, §6(B) assigns the Treasurer responsibility for "the financial records and books of account" — so the record deficiencies documented here are, ultimately,* *a governance failure at the officer level, not merely a managing-agent bookkeeping lapse. A further period-recognition defect sits on the lease side: the Association's operating-lease Additional Rent obligation — the landlord's real estate taxes on the Hancock Market and Club 44 spaces — is not accrued through fiscal year-end despite the lease requiring it, understating expenses and liabilities and overstating year-end results (§D-4); AJE #4's $6,000 over-accrual removal on account 7500 shows the accrual that did exist was estimated rather than computed from the lease and the tax bills.*

This is not hypothetical — the prior budget did exactly this, to the tune of ~$436,203. *The FY2024-25 proposed budget assumed approximately* ***$436,203 of unrealized investment gains as reserve interest income****. The Association's reserve portfolio consists primarily of certificates of deposit (CDs) that are normally held to maturity rather than sold before maturity; as a result, temporary changes in the market value of those investments are generally not realized in cash and typically reverse as the CDs approach maturity and are redeemed at face value. Incorporating projected unrealized gains into reserve interest income therefore recognized temporary market-value fluctuations as though they represented anticipated investment earnings. This assumption materially improved the projected reserve results presented in the budget without increasing the Association's expected cash inflows available to fund future reserve expenditures — it made the reserve position look stronger on paper while adding nothing to the cash actually available to pay for capital work. The Association's subsequent audited financial statements reported unrealized gains and losses separately from investment interest income rather than including them as reserve interest income; accordingly, the budget presentation was not consistent with the presentation ultimately reflected in the audited financial statements. The significance for the FY2026-27 review is direct: the same market-value bookkeeping that produced the $436,203 overstatement a year ago is still in place (AJE #2 recurs), so the $800,000 reserve-interest line in the current budget must be confirmed to exclude unrealized amounts before it can be relied upon — the prior year shows, in dollars, what happens when it is not. The evidence indicates that the proposed FY2024-25 budget included approximately $436,203 of unrealized investment gains within reserve interest income despite the Association's longstanding practice of holding its certificates of deposit to maturity, where temporary fair-value fluctuations ordinarily reverse upon maturity and do not become realized investment earnings. If established, this presentation raises substantial questions under Title 68, Part 1445, Section 1445.300 governing professional conduct, because it may constitute a knowing misrepresentation of a material financial fact presented to the Board and unit owners (the conduct-standard analysis appears below).*

The consequence: ***the Reserve Interest Income account does not measure a single economic activity*** *— it contains (1) actual earned interest and (2) unrealized market-value adjustments management records during the year — a component CIA quantifies, as of June 30, 2026, at an unrealized market-value loss of $90,947.86, already recorded in the account and reducing reported reserve interest income by that amount (if the investments are reported at amortized cost, a year-end adjusting entry would eliminate the unrealized loss and increase reported Reserve Interest Income by $90,947.86) — and, separately, it is overstated by (3) approximately $95,598 of prior-year accrued interest positioned for double recognition because the related audit accrual was not reversed (with the auditor both unwinding the stale accrual and laying the new one at year-end). These three matters — the $90,947.86 unrealized market-value loss, the $95,597.84 unreversed accrued interest receivable, and the* *absent year-end accrual — are independent, affect the account for different reasons, and are analyzed separately rather than netted or offset against one another. Neither the Board nor the owners can determine from monthly statements how much of the reported figure is earned interest versus market-value movement versus prior-year accrual; investment performance cannot be evaluated; budget-to-actual and year-over-year comparisons on this account are unreliable by construction. The governance dimension is sharper:* ***the monthly financial statements the Board relies on all year are maintained on an accounting basis materially different from the audited financial statements ultimately issued*** *— corrected every year, retroactively, months after the fact.*

Framed with appropriate care for a forensic record: the Association's accounting records appear inconsistent with GAAP's principles of faithful representation and proper period recognition (ASC 972). Unrealized investment gains and losses appear to be recorded within Reserve Interest Income rather than separately identified under the audit's held-to-maturity basis; the FY2024-25 audit accruals were reversed in many cases but not all — the $95,597.84 Accrued Interest Receivable remains recorded; and the operating-lease Additional Rent obligation — property taxes of approximately $64,000 in total, split between two general-ledger accounts, recorded by neither management nor the independent auditor at year-end — is not accrued. GAAP does not mandate reversing entries as a technique — but it requires recognition in the proper periods, and these failures produce misstated interim statements. For the budget: the 9020 baseline carries both defects at once — the $388,974 YTD and $726,900 projection include both the $95,597.84 unreversed accrual (component 3) and unrealized market-value movement (component 2), which on CIA's June 30, 2026 extended basis is an unrealized loss of $90,947.86 — so any adjustment confined to removing the accrual still leaves the market-value component in the figure; a reliable run-rate requires them to be separated.

The statutory dimension: ICPA Section 18.10. *Section 18.10 (765 ILCS 605/18.10) provides that an association of 100 or more units "shall use generally accepted accounting principles in fulfilling any accounting obligations under this Act." At more than 700 units, the Association is squarely within the provision. The Act does not state in terms that "the budget shall be GAAP-compliant" — Section 9 requires a detailed proposed annual budget — but the budget is an accounting obligation under the Act, fulfilled from the Association's accounting records. Because Section 18.10 requires those records to be on a GAAP basis, and the auditor must make recurring year-end adjustments to bring them there, a substantial question arises whether the records the Board relies upon in budgeting satisfy Section 18.10. The claim is not that the statute mandates a GAAP budget document; it is that the statute mandates GAAP records, the budget is built from the records, and the records demonstrably require annual correction to reach GAAP. A budget adopted August 17 on records in that condition inherits the statutory question.*

The regulatory dimension: 68 Ill. Adm. Code Part 1445 reaches the manager. *Part 1445 does not impose GAAP on the management firm in terms. It imposes two standards that get to the same place. Section 1445.130(b) requires a firm or unaffiliated manager accepting association funds to maintain "a bookkeeping system in accordance with sound accounting principles" — a standard the documented record (a receivable frozen at the prior year's balance for twelve months; accrual estimates the auditor corrected by a net $93,513; a $21.9M reserve investment portfolio whose certificates of deposit are kept on a basis the auditor rewrites* *annually; a contractual lease obligation unaccrued; books conformed to audit only retroactively) fails without ever reaching GAAP. Section 1445.300(f) makes it unprofessional conduct to fail to act "in accordance with all local, State, and federal laws" — importing ICPA §18.10 into the licensee's own conduct standard — with supporting prongs at 1445.300(b) (knowing misrepresentation or inaccurate statements) for the interim financials — the ~$436,203 of unrealized gains presented as reserve interest income in the FY2024-25 budget (discussed above) is the most concrete instance, which, if established, may constitute a knowing misrepresentation of a material financial fact to the Board and owners — and 1445.300(e) (fiduciary duty). And because the Act's definition of community association management expressly includes preparing budgets and other financial documents, the FY2026-27 budget is not ancillary to the licensed practice — it is the licensed practice, performed on records in the condition this Section documents. The association-side obligation (§18.10) and the manager-side obligation (1445.130(b)/1445.300) are independent and cumulative.*

Quantified effect on the numbers the Board is being shown. *On the corrected record: (i) YTD* ***reserve interest income is affected by three independent matters, analyzed separately and not netted****: it is overstated by $95,597.84 (the unreversed AJE #3 Accrued Interest Receivable, ~25% of the $388,974 YTD); it is reduced by the $90,947.86 unrealized market-value loss CIA quantifies as of June 30, 2026, already recorded in the account and lowering reported reserve interest income by that amount (a year-end adjusting entry to amortized cost would eliminate the loss and raise reported Reserve Interest Income by $90,947.86); and it is understated by the absence of a year-end accrual for interest earned through August 31, 2026; the net direction relative to a correct figure remains indeterminate until the computation is performed on the proper basis, and the three matters are not offset against one another; (ii) the* ***FY2025 federal income tax AJE ($115,000) carries no double-count risk*** *— the associated accounts payable has been settled off the books; and (iii) the* ***December 2025 REV AUDIT entries reversed the moving-fee and expense-accrual adjustments****, eliminating the operating-side double-count exposure previously identified for those accounts (the $4,484.47 unidentified-capital leg awaits the line-by-line match demanded at Exhibit F). Directional nuance: the material items — the unreversed interest receivable and the market-value basis — sit on the reserve/non-operating side, precisely where the budget's reserve-funding and tax narratives live; on the operating fund, the remaining known item is the unaccrued operating-lease obligation (§D-4), which increases the true deficit.*

The unreversed interest accrual and the market-value bookkeeping together make the income tax liability impossible to budget reliably. *Reserve interest is the Association's principal taxable income under IRC §528 (flat 30% federal). With $95,597.84 double-counted — implying roughly* ***$28,679 of phantom federal tax*** *in any ledger-based projection — and unrealized gains and losses commingled in the same account (not taxable until realized), the ledger's interest figure is unusable as a tax base; a preparer tying to custodial statements and Forms 1099 will produce a figure the ledger cannot support. Management therefore cannot compute a defensible tax accrual, set estimated payments, or budget the expense — and, consistent with that, the FY2026-27 budget carries no income-tax expense in operations, providing $125,728 as a reserve expenditure instead (§D-6; §D-14).*

The failure is chronic and structural. *AJE #3's first component is the auditor reversing the prior year's $63,040 accrual — the second consecutive year the interest accrual went unreversed, its fossil record the frozen $63,040 unadjusted balance of account 1410. AJE #2's caption ties the market-to-cost correction to the prior audit's standards. AJE #1's fund-balance true-up shows the ledger did not agree even to the prior year's audited statements. The workpapers are dated December 19, 2025, with entries effective-dated back to August 31 — every monthly statement the Board received from September through at least December was drawn from a ledger later rewritten as of a date months in the past.*

How this affects the budget process. *The architecture runs YTD Actuals → Projections → FY2026-27 amounts → change percentages, and the contamination propagates through every stage: misstated actuals (on the interest line, on two independent grounds); projections that annualize rather than average out the error; FY2026-27 amounts set by reference to those projections (electricity budgeted "between the two projections"); and change percentages — the number most directors and owners will read — measured against a distorted baseline, overstating the health of reserve interest and moving-fee income and carrying no tax obligation in the operating result. A board adopting this budget on August 17 votes on a document whose foundation layer is arithmetically wrong in auditable, dollar-specific ways — and management has had the AJE schedule in hand since December 19, 2025.*

D-11. The projected FY2025-26 operating shortfall, the Declaration's mandatory shortage adjustment, and the stagnant operating-fund target

A framework of mismatched dates raises the stakes on accurate accruals. *The Association's financial reporting runs on dates that do not coincide: its books close on a* ***fiscal year ending August 31****; regular assessment changes take effect* ***January 1****; and the Declaration requires the Board to deliver owners an itemized accounting of the preceding calendar year's common expenses* ***on or before April 1****. Financial information therefore has to carry cleanly from the fiscal-year close into the assessment structure that takes effect four months later and into the calendar-year accounting delivered to owners each April — and it can only do so if year-end accruals are recorded correctly, adjusting entries are reversed at the start of the next period, and budget assumptions are presented consistently across the periods. This is precisely where the failures documented in §D-10 bite: the unreversed $95,597.84 Accrued Interest Receivable, a market-value bookkeeping basis the auditor rewrites annually, and mid-year changes such as the January 1 cable/internet re-billing (§D-8) each distort figures that must reconcile across these dates. An error introduced at one point does not stay there — it flows into the fiscal-year budget the Board adopts and into the calendar-year accounting owners receive each April 1, which is why the accrual and period-recognition findings in this report are not technical niceties but go to the reliability of both the budget and the owner accounting.*

The proposed budget's current-year comparative double-counts cable and internet revenue, converting a projected operating deficit into an apparent surplus. *Effective January 1, 2026, the Association appropriately segregated cable and internet from assessments and began billing them as separate per-unit charges (§D-8). Segregating those charges is correct; the defect is that management's FY2026-27 proposed-budget package did not remove the cable and internet amounts from the FY2025-26 comparative assessment figure before adding the segregated revenue lines. In the package's current-year actual/projected column, Account 3000 carries the full combined owner charge of $10,142,869, while cable ($255,251) and internet ($69,986) are also presented as separate revenue lines, so the same owner charges are counted twice. The duplicated amount is approximately $325,146: the eight months of January–August 2026 cable and internet billed at $40,643.25 per month under the Association's official Board-adopted per-unit billing schedule, which ties within immaterial rounding to the separately stated cable and internet ($255,251 + $69,986 = $325,237) and to the independently derived corroborating figure of $324,993 by which the package's current-year Total Assessments and Fees ($10,468,106) exceeds the FY2025-26 Annual Budget for Account 3000 reported on the Association's monthly Statements of Revenues and Expenses ($10,143,113.48, the FY2025-26 Annual Budget for Account 3000 as reported on the Association's monthly Statements of Revenues and Expenses). The correct FY2025-26 comparative, reflected in Exhibit H, presents Account 3000 assessments at $9,817,966, cable television at $255,161, and internet at $69,985 — the Board-adopted per-unit billing schedule amounts — together totaling $10,143,112. The effect is material: management's current-year projected revenue of $10,904,666 overstates the correctly segregated projection of $10,579,187 (Exhibit H) by approximately $325,479, which converts a projected operating deficit of $39,137 (Exhibit H) into an apparent operating surplus of roughly $286,000. That apparent surplus is a mathematical artifact of the duplicated revenue — not improved* *operations, favorable collections, a revenue windfall, or an economic surplus of any kind. Corrected, the current year is projected to run an operating deficit, consistent with the shortfall documented in this section (Key Finding 5). This duplication is a presentation defect in the comparative figure and is analyzed independently of the two other matters affecting these accounts — the unreversed Accrued Interest Receivable and the absent year-end accrual (§D-10) — which are not netted against it. Because the same owner charges appear twice in the material presented for adoption, the duplication materially overstated the current-year operating result shown to the Board and impaired the Board's ability to evaluate assessment adequacy, operating balance, reserve affordability, and the proposed budget's overall reliability.*

The Declaration's assessment machinery is express — and the budget's construction recovers annual assessment changes over eight months, not the twelve the installment provision describes. *Article VI, §1 provides that "[o]n or before January 1st of the ensuing year, and the 1st of each and every month of said year, each Owner … shall be personally liable for and obligated to pay to the Board or as it may direct, one-twelfth (1/12) of the assessment made pursuant to this paragraph." The assessment year the Declaration describes is annual, January-anchored, and payable in twelve equal monthly installments. The Association budgets, by contrast, on a September–August fiscal year, holds September–December at the current monthly rate, and sets the January rate so that the remaining eight months recover the full annual change. The budget's own figures demonstrate both the structure and its effect, exactly to the penny.* ***The source of the assessment, cable-television, and Wi-Fi figures.*** *The adopted operating budget does not separately budget assessment revenue, cable-television revenue, and Wi-Fi revenue. The monthly budgeted amounts for those categories appear in the Association's official Board-adopted per-unit billing schedule, distributed following budget adoption, and those totals are carried into Exhibit H:* ***$827,333.89*** *per month for September through December 2025, with cable-television and Wi-Fi charges embedded within assessments; and* ***$854,222.00*** *per month for January through August 2026, stated on the schedule as* ***$813,578.75*** *of assessments plus* ***$40,643.25*** *of separately billed cable-television and Wi-Fi charges. Year-to-date actual and projected year-end amounts are taken directly from the Association's financial statements. General ledger detail documents the accounting mechanics. In each of the four months reviewed — January, February, April and June 2026 — the ledger records an AR Summary Posting crediting Assessment Revenue for the assessment component and a further AR Summary Posting crediting Cable Television Revenue (3480) and Internet Charges (3490) for the separately billed charges; an RCLS AR POSTING journal entry then debits Cable Television Revenue $31,849.74 and Internet Charges $8,732.88 and credits Assessment Revenue (Account 3000) $40,582.62. The two revenue accounts close each month at zero and Assessment Revenue is increased by that amount. Those four months demonstrate a recurring accounting procedure; the general ledger detail for the remaining months was not reviewed, and no inference is drawn as to those months. Exhibit H reverses that presentation solely to state the three revenue categories consistently across the period examined. This report describes the accounting treatment the records show and draws no inference about the reason for it.* ***The schedule reconciles to the Association's own reported figures without adjustment:*** *four months at $827,333.89 plus eight months at $813,578.75 equals the* ***$9,817,966*** *assessment budget carried on Exhibit H; eight months at $40,643.25 equals the* ***$325,146*** *of separately billed cable-television and Wi-Fi charges; and the two together total $10,143,112 (from*

*$10,143,111.56), which reconciles to within $1.92 of the FY2025-26 Annual Budget for Account 3000 reported on the Association's monthly Statements of Revenues and Expenses ($10,143,113.48, the FY2025-26 Annual Budget for Account 3000 as reported on the Association's monthly Statements of Revenues and Expenses). The billing schedule budgets the cable-television and Wi-Fi charges at $40,643.25 per month against the $40,582.62 the general ledger posts — a documented budget-to-posting difference of $60.63 per month, or $485.04 across the eight months, which is the $485 by which Exhibit H's $325,146 cable-television and Wi-Fi budget exceeds its $324,661 projection. Year-to-date collections of $6,563,651 through April 30, 2026 equal four months at $827,333.89 plus four months at $813,578.75. On the same structure, the proposed FY2026-27 assessment of $10,007,019 equals four months at the current $813,578.75 rate plus eight months at $844,088.00 — a January 1, 2027 step of exactly 3.750%, recovering the $244,074 annual change at one and one-half times the monthly depth a twelve-installment spread would require. That January step is $30,509.25 per month — one and one-half times the $20,339.50 monthly depth of a twelve-installment spread of the same $244,074 annual change (+2.500% on management's presented baseline, Exhibit H). **Three percentages describe this budget, and each is correct for a different purpose.** Exhibit H prints a **1.926%** change for Account 3000 — the FY2026-27 assessment budget of $10,007,019 against the FY2025-26 assessment budget of $9,817,966. That is a budget-over-budget comparison of the account as presented, and it is not a normalized rate change: the FY2025-26 budget states cable-television and Wi-Fi charges within assessments for September through December 2025 and separately from January 1, 2026, while the FY2026-27 budget states them separately for the full year, so four months of the base carry charges the FY2026-27 figure excludes. Measured on a consistent basis — twelve months at the current $813,578.75 monthly assessment, or $9,762,945 — the normalized annual increase is $244,074, or **2.500%**. And because that annual increase is implemented over the last eight months of the fiscal year rather than across all twelve, owners meet it as a **3.750%** step on January 1, 2027, from $813,578.75 to $844,088.00 per month. The three reconcile: 12 ÷ 8 × 2.500% = 3.750%. This report discusses the normalized and step measures because they state the rate change owners experience; it does not treat Exhibit H's printed figure as incorrect. The transmittal states 3.75%, computed against the annualized current rate of $9,762,945 (12 × $813,578.75); where the transmittal and the detailed schedules differ, this report follows the schedules (Methodology). The consequence is forward-looking and concrete: any assessment increase introduced before adoption would, under this construction, be recovered entirely in the January–August 2027 installments at one and one-half times the monthly depth of a twelve-installment allocation — and in any change year, no monthly installment equals one-twelfth of the adopted annual assessment (for FY2026-27, $10,007,019 ÷ 12 = $833,918.25, an amount no owner would be billed in any month). The Board should reconcile the assessment methodology to the Declaration, disclose it to owners, and explain the basis for the calculation before adoption. Separately, the January 1, 2026 decrease in the assessment line — which coincides with the segregation of cable and internet charges from assessments (§D-8) — appears nowhere in the budget materials with its components stated; the annual or adjusted estimate delivered for that change, with proof of delivery under Article VI, §5, is a demand item (Exhibit F). These monthly figures are derived from the assessment figures presented in Exhibit H — management's proposed FY2026-27 assessment, management's reported year-to-date collections (carried on the*

exhibit as a verification flag, not a correction — §D-9), and the corrected FY2025-26 projection — and admit no other solution on the stated practice; confirmation against the workbook's cell formulas and the Association's billing schedule is a verification item.

*The current-year budget projection nets to a **$39,137 operating fund shortfall** for FY2025-26 (Exhibit H, June-updated projection). Under the Declaration's Year-End Accounting and Shortage Adjustment provision (Article VI, §1), that deficit is consequential rather than discretionary — but the provision operates on the calendar year, not the fiscal year: on or before April 1 of each calendar year, the Board must furnish an itemized accounting of the preceding calendar year's common expenses, reserves, capital expenditures, real estate taxes, and assessments collected, showing any net excess or deficit, and **any net shortage is added to the assessment installments due in the succeeding six months after the accounting is rendered, distributed based on each owner's percentage of ownership**. The projected fiscal-year deficit therefore does not itself trigger the adjustment; it feeds it: eight of FY2025-26's twelve months fall within calendar 2026, so the shortfall now projected flows into the calendar-2026 accounting due on or before April 1, 2027 — and a net calendar-2026 shortage would produce a mandatory, automatic add-on to owners' installments in the six months after that accounting is rendered. None of this is disclosed in a budget package that simultaneously presents owners a $472,489 assessment-side surplus for next year. Two further compliance questions follow from the provision's calendar basis: the Association's books close August 31, so the calendar-year accounting the Declaration specifies requires a separate cut of the records that the fiscal-year statements do not directly produce — whether the Association's April 1 accountings have been rendered on the calendar-year basis at all, and what they showed, are demand items (Exhibit F).*

***The shortfall is the workforce-plan failure arriving in cash.** The primary driver of the deficit is payroll overrun: janitors alone are projected at $899,156 against a $790,000 budget — a ~$109K miss on one account, exceeding the entire shortfall — with the part-time relief, office-staff ($412,268 projected vs. $381,525 budget), and non-union health ($47,574 projected against a $52,940 budget that nonetheless jumps to $62,514) lines confirming the same absence of buildup. The FY2025-26 budget was built without a workforce plan (finding (d)); the cost it understated has now materialized; and the Declaration routes the miss directly to owners as a shortage assessment. The FY2026-27 janitor line's +28.7% increase is itself evidence of the under-budgeting. This is the concrete answer to any suggestion that the workforce-plan demand is a formality: the absence of the plan has a dollar figure, a Declaration mechanism, and a due date.*

***One note on the basis of that figure.** The $39,137 is Exhibit H's projection, and it already reflects the unaccrued operating-lease Additional Rent obligation — an omitted year-end property-tax accrual of approximately $64,000 in total, split between Hancock Market and the JHC 44th Floor Lease, recorded by neither management nor the independent auditor (§D-4). Management's own projection does not carry it: management projects FY2025-26 operating expenses of $10,554,325, and recognizing the obligation is what brings the projection to Exhibit H's $10,618,324 and the $39,137 shortfall. The accrual runs in one direction only — a proper accrual through 8/31 increases the deficit, by an amount determinable from the landlord's tax bills. The Declaration obligation triggers on the actual year-end accounting either way — and that accounting, due on or before April 1, 2027 for* *calendar year 2026, is itself a compliance checkpoint: whether the April 1, 2026 accounting for calendar year 2025 was timely provided, on what year basis it was prepared, and what it showed, is a demand item.*

The operating-fund target has been frozen since at least 2009 — a $625,420.50 erosion against the Board's own standard. *The Association's audited financial statements indicate an operating fund target of approximately* ***$1.425 million in place since at least 2009****. That target appears to have remained effectively unchanged through FY2025-26 despite substantial increases in operating expenditures, payroll, insurance costs, and overall operating complexity. Assuming the Board's original objective was to maintain operating liquidity equal to approximately* ***2.25 months of annual operating expenditures****, the equivalent target for FY2026-27 would approximate* ***$2,050,420.50*** *— so the historical operating fund objective now reflects an estimated* ***$625,420.50 shortfall relative to the Board's own liquidity standard****. Restoring the target to its inflation-adjusted level would require a one-time funding of that $625,420.50, equivalent to a* ***deferred assessment increase of approximately 6.41%*** *of the annualized current assessment rate ($625,420.50 ÷ $9,762,945) — a figure directly comparable to the 9.97% deferred increase embedded in the reserve waiver (§D-6), and, like it, a cost the budget defers rather than avoids. These two measures use the annualized current rate rather than the adopted or budgeted assessment figures, and deliberately so: the depth of a rate step is properly measured against the assessments the Board adopted, while the cost of a deferred obligation is properly measured against what owners are paying now — the rate on which any such increase would actually be imposed (Key Finding 17). Whether 2.25 months remains an appropriate operating liquidity objective is a separate governance question: given the Association's size, complexity, aging infrastructure, insurance exposure, litigation risk, ancillary commercial operations, and an annual budget exceeding $10 million, the Board should periodically reassess its operating liquidity objective rather than relying indefinitely on a target established many years earlier. The finding compounds the shortfall analysis above: the operating fund is simultaneously below its own inflation-adjusted target and projected to shrink further this year.*

The Association also maintains a ***$250,000 water damage insurance deductible****. While higher deductibles may reduce annual insurance premiums, they also require the Association to absorb a substantial portion of any covered water loss before insurance proceeds are available. As a result, large deductibles increase the importance of maintaining adequate operating liquidity and working capital to respond to unexpected events without disrupting normal operations or requiring short-term financing or special assessments. This consideration is particularly relevant given the Association's declining operating fund balance, projected operating deficit, limited working capital, and the age and complexity of the building. Although the deductible itself is not unusual for a property of this size, it reinforces the conclusion that the Association's operating liquidity should be evaluated conservatively when establishing an appropriate working capital target.*

The governance incoherence. *Owners are being asked to accept, in the same season: a current year ending in deficit (triggering a mandatory shortage add-on), an operating fund below the Board's own long-standing (since at least 2009) liquidity standard, a next-year budget carrying a $472,489 assessment-side surplus (raising the anti-profit and RR 70-604 issues under finding (b)), and a $973,400 reserve waiver justified as affordability relief. A* *board that under-collects for actual operating costs while over-collecting against next year's and under-funding reserves is not managing to any coherent financial policy — its consistent effect is to hold the assessment line down while the obligations it defers accumulate.*

D-12. Budget-adoption disclosure failures — §9(c)(1) and the missing per-unit schedule

Under 765 ILCS 605/9(c)(1) and 18(a)(6), and as IDFPR's Ombudsperson guidance states plainly, the board must each year prepare and distribute a proposed annual budget "indicating with particularity" all anticipated common expenses by line item, capital expenditures or repairs, real estate taxes if any, the amount designated for reserves, ***each unit owner's anticipated assessments****, and* ***other anticipated income*** *— and unit owners must receive it* ***at least 25 days before*** *the board meeting at which the budget is adopted. Notice of that meeting must be mailed or delivered 10–30 days before the meeting and posted at least 48 hours in advance (18(a)(8)), with adoption by a majority of board members present at a properly noticed open meeting with a quorum present throughout.*

The Association consistently fails the per-unit disclosure. *Budget materials distributed to owners have consistently omitted each unit's anticipated assessments and the itemized other anticipated income within the 25-day window. The FY2025-26 cycle documents the sequence: the proposed budget was distributed to owners on July 22, 2025; a revised copy followed after management reported that an error had been discovered in the first; the Board adopted the budget on August 18, 2025; and the schedule of each unit's assessment reached owners on August 20, 2025 — two days after the vote it was required to precede by twenty-five. The FY2025-26 board budget packet (Appendix E) is a representative example: it presented owners category-level totals and a single illustrative figure — a $1,000 monthly assessment rising $32.50 — but no schedule of each unit's anticipated assessment, which is the particularized disclosure the statute requires. The trajectory across packets runs toward less disclosure, not more: the FY2022-23 transmittal (Appendix G) at least closed by advising owners that additional details on all portions of the proposed budget were available for inspection in the management office — an invitation absent from the FY2025-26 packet, even as the per-unit schedule was omitted throughout. This is not a paperwork technicality — the per-unit schedule is the budget's built-in reconciliation device. Summing each unit's anticipated assessments across all units and percentage interests must tie to the assessment revenue line ($10,007,019), and itemizing other anticipated income must tie to the ancillary revenue lines. Producing the schedule forces management to reconcile total assessment revenue and fees to the budget before distribution — and many of the errors this review documents would have been caught by exactly that exercise: the misclassified fee lines (§D-9), the unexplained assessment-revenue YTD flag, and the arithmetic of the assessment decrease against the category increases. The statute, properly followed, is a quality control the Association has been skipping.*

The July 23 convergence. *Twenty-five days before the August 17 adoption vote was* ***July 23, 2026*** *— the statutory last day for owners to receive a compliant proposed budget. A distribution that omits the per-unit anticipated assessments and other anticipated income arguably never starts the 25-day clock, leaving an August 17 adoption procedurally vulnerable. The 18(a)(8) notice windows (mailing 10–30 days out; 48-hour posting) supply additional checkpoints. Each is objectively verifiable and each failure is independently sufficient to challenge the adoption.*

D-13. Five-year operating trend — the surplus has been all but consumed

A review of the Association's operating results from FY2019-20 through FY2024-25, compiled from its financial statements, shows a persistent divergence between income and expense growth. Operating income grew at a compound annual rate of approximately ***1.87%*** *over the period, while operating expenses grew at approximately* ***4.95%*** *— expenses rising roughly* ***2.6 times faster than income****. The operating surplus absorbed the entire difference, falling steadily from* ***$1,166,717 in FY2019-20*** *— to $1,039,419 (FY2020-21), $878,533 (FY2021-22), $800,548 (FY2022-23), and $318,987 (FY2023-24) — to just* ***$2,723 in FY2024-25****, a decline of approximately* ***99.8%****, equivalent to a compound annual erosion of about* ***70.2%****. The Association ended FY2024-25 at essentially operating break-even.*

Fiscal year	***Operating income***	***Operating expenses***	***Operating surplus***
FY 2019-20	*$8,402,169*	*$7,235,452*	*$1,166,717*
FY 2020-21	*$8,461,659*	*$7,422,240*	*$1,039,419*
FY 2021-22	*$8,540,993*	*$7,662,460*	*$878,533*
FY 2022-23	*$8,694,010*	*$7,893,462*	*$800,548*
FY 2023-24	*$8,921,834*	*$8,602,847*	*$318,987*
FY 2024-25	*$9,215,999*	*$9,213,276*	*$2,723*
CAGR	***1.87%***	***4.95%***	***−70.2%***

Source basis. The operating income and operating expense figures above are taken from the Association's audited financial statements for the years shown, and are stated on the audited basis rather than the basis used in the Association's budget presentations at Appendices E and G. The two bases are not directly comparable, and the difference between them is one of presentation, not of error. Readers reconciling this presentation to the budget presentations should expect a difference of roughly $800,000 to $900,000 attributable to that difference in basis. The audited statements supporting each year are identified at Exhibit F. The figures and the computations above are unchanged.

This is the essential context for evaluating the proposed FY2026-27 budget. The budget's presented net operating surplus of approximately $20,000 does not sit against a healthy historical margin — it sits at the tail of a five-year slide that reached near-zero in FY2024-25. Three implications follow. First, the structural gap between income and expense growth is the backdrop against which the FY2025-26 operating deficit (Detailed Analysis §D-11) and its mandatory shortage assessment should be read: the deficit is not an aberration but the point at which a five-year trend crossed into negative territory. Second, the budget's own net operating result ($20,138, roughly 0.2% of revenue) sits essentially at the trend's break-even endpoint — the proposed year confirms the slide rather than reversing it. The $472,489 assessment-side surplus exists only by grace of the $521,800 insurance reduction, which falls entirely on the assessment side (§D-5, §D-6); that makes the reliability of the underlying *figures — and the unreliable accounting baseline documented in §D-10 — more consequential, not less: an operating balance this thin, built on actuals requiring annual correction, warrants particular scrutiny. Third, with essentially no operating cushion carried into the budget year, the Association has little margin to absorb the payroll, utility, or insurance variances this review identifies, or the shortage assessment already triggered. Accordingly, the historical operating trend does not establish that the proposed FY2026-27 budget is incorrect. Rather, it demonstrates that the Association has limited operating capacity to absorb unfavorable variances, making the reliability of the budget's underlying assumptions particularly important before adoption.*

Source: the Association's operating results, FY2019-20 through FY2024-25, as compiled for this trend analysis. CAGR computed over the five annual intervals. These figures are drawn from the Association's audited financial statements.

D-14. The federal tax election may not minimize the owners' tax burden

The Association files U.S. income tax on Form 1120-H, the election available to homeowners associations under IRC §528. That election is not the only one available, and it is not costless. An electing association excludes its exempt-function income (member assessments) from tax entirely, but pays a flat 30% federal rate on its homeowners association taxable income — essentially its net non-exempt income, the largest component of which, for this Association, is reserve investment interest. The alternative is the regular corporate return, Form 1120, taxed at the flat 21% rate enacted in 2017. On the ~$800,000 of reserve interest this budget projects — earned on a reserve portfolio of roughly $21.8 million — the nine-percentage-point difference between the two rates is a materially larger annual number than the rounding this budget otherwise debates. The point is not that one rate is lower in the abstract; it is that the election is an annual dollar decision embedded in the budget, not a clerical compliance step, and the package treats it as the latter.

The lower headline rate does not make Form 1120 automatically advantageous, and this report does not assert that it is. Filing Form 1120 subjects the Association to the membership-organization deduction limitations of IRC §277, which segregate member from non-member income and can defer or disallow deductions the 1120-H regime does not reach; it makes the Revenue Ruling 70-604 election on excess member assessments consequential rather than academic; and it requires the member/non-member activity accounting and reserve-fund characterization the Association does not currently maintain (§§D-8 through D-10). In particular, for the reserve contributions to escape tax on a Form 1120 they would have to qualify as capital contributions under IRC §118, which — per PPC's reserve-compliance checklist (Appendix 5E) — requires, among other conditions, a reserve study supporting the specific capital purpose, segregated capital and non-capital reserve accounts, an annual member (not board) Revenue Ruling 70-604 vote, and a budget that agrees to the reserve study. This Association fails the last two on their face: counsel's written response states no member 70-604 vote has occurred in at least seven years, and the budget funds reserves at $1,480,000 against the study's recommended $2,453,400 — it does not agree to the study. A switch to Form 1120 would therefore risk the reserve contributions being taxed as excess member income under IRC §277 — the exposure behind the well-known IRS reserve-taxation assessments. Whether the 21% return actually produces a lower total liability than the 30% return therefore depends on facts — the mix of member and non-member income, the availability of directly-connected deductions, and the §277 treatment — that only a return-level analysis can resolve. The election is available and potentially valuable; it is also unsafe for an association whose records are not built to support it.

The finding here is narrow. The budget package contains no evidence that anyone — management, the preparer, or the Board — has evaluated whether the Form 1120-H election minimizes the owners' total tax burden, or whether the regular-return alternative would. The election is made annually; it is binding for the year once made, and revocation requires the consent of the Commissioner; and on this Association's numbers the choice moves real money. That makes it a budget assumption the Board is entitled to see tested, not a default it should inherit. The same pattern documented elsewhere in this report — preparer-originated accounting and tax positions adopted without documented Board review, most directly the *materially different Form 1120-H methodologies the Association's two return preparers applied (§D-9) — counsels against assuming the election has been deliberately optimized rather than simply repeated. That caption is also vulnerable on the merits: §118 capital-contribution treatment depends on amounts actually set aside under a bona fide, current capital plan. The $973,400 waiver means the amounts were not funded, and the 2022 study — dated, and with no Board action adopting it documented in the minutes reviewed (§D-6) — does not supply a current plan. Both undercut that predicate, so the regular return is not the safe harbor its 21% headline implies. The written comparison required below should therefore address the §118 and capital-treatment position expressly, alongside the §277 and Revenue Ruling 70-604 questions.*

Require: *a written comparison, prepared by the return preparer or independent tax counsel, of the Association's expected federal tax liability under Form 1120-H and under Form 1120 for FY2026-27, identifying the §277 and Revenue Ruling 70-604 consequences of the regular return and the member/non-member accounting it would require; and, if the projected tax savings under the lower-rate alternative materially exceed the added compliance cost, the Board's deliberate consideration of that alternative before it adopts a budget that carries the tax as a reserve expenditure — as this one does — rather than as an operating cost (the accounting basis for that classification is developed at §D-6).*

D-15. Net-basis reporting and the Holiday Fund — gross-reporting departures, an off-books committee, and an unauthorized advance

The recurring technique. *At several points the Association reports activity on a net basis — collapsing a revenue stream and the expense it funds into a single near-zero line — where U.S. GAAP requires gross presentation. Under GAAP and CIRA accounting, revenues and expenses must be reported gross; offsetting them on the income statement is prohibited (see §D-7). The threshold objection sometimes raised in this industry — that owners may not be "customers" for revenue-recognition purposes — does not arise here: under Illinois law the Declaration is a contract between the Association and its members, which supplies the contract-with-a-customer element of ASC 606 rather than leaving it to accounting election (Bd. of Directors of Warren Blvd. Condominium Ass'n v. Milton, 399 Ill. App. 3d 922 (1st Dist. 2010) (association–owner relationship governed by contract — the declaration and bylaws — and by statute); see also Stobe v. 842–848 W. Bradley Place Condominium Ass'n, 2016 IL App (1st) 141427 (a declaration is construed under the principles of contract interpretation)). Three instances recur, and they are best read together because each removes from the statements an amount the Board and owners are entitled to see.*

Instance one — the real-estate-tax-attorney special assessment *is netted against the attorney fee it funds to present a nominal $100 (effectively $0) line (§D-7). Because the Association engages the attorney and levies the assessment, it is the principal and must report the assessment as revenue and the fee as expense, gross (ASC 606-10-55-37).*

Instance two — moving fees. *The Association charges owners moving fees and incurs a related moving-fee expense payable to the commercial owner; the records reviewed indicate the two are presented on a net basis within account 3930 rather than gross. The netting removes both sides from view at once — the true fee revenue generated from owners and the true cost of the commercial-owner arrangement — so neither can be read from the reported line or tested against the budget, and the same gross-presentation principle applies: the Association sets and collects the fee and bears the related charge, so it reports both, gross. The gross fee revenue, the related amounts paid or payable to the commercial owner, and the basis for the netting are demand items.*

Instance three — reserve and special assessments *raise a related but genuinely unsettled question. Under the contract-liability view (PPC Guide), an assessment collected for a future capital task is not earned until the task is performed, so unspent reserve or special-assessment amounts would be carried as a contract liability (deferred revenue) rather than swept into fund balance. That view is not universally applied: the accounting profession remains divided on whether the contract-liability method governs CIRA reserve assessments, and no authoritative FASB or AICPA pronouncement has resolved it. This report therefore treats the point as one of policy and disclosure, not a definitive departure: the Association should state, in writing, the revenue-recognition policy it applies to reserve and special assessments and apply it consistently, and its auditor should confirm the basis in the notes. The Board should know which method its statements use and why (§D-6).*

Instance four — the Holiday Fund *is the sharpest, because the netting removes more than a presentation choice from view. Owners contribute voluntarily to a year-end fund for building staff; the Holiday Fund Committee — including the President, the Treasurer, the Committee's remaining members, and the management agent — promotes, collects, and disburses the money; and the fund's activity is reported net at $0. Netting fails under either permissible treatment. If the fund is a custodial arrangement — owners' money the Association merely holds — it belongs on the balance sheet as cash offset by a "funds held for others" liability, with no income-statement activity at all (PPC §301.16). If instead the Association controls the fund — which the Committee's role in collecting and disbursing indicates — the committee's activity consolidates into the Association's statements and must be reported gross: contributions as other income, disbursements as expense, with footnote disclosure of balances, collections, and the nature of the arrangement (PPC §509.46). Either way the $0 line is wrong; it destroys the one figure that matters — the running balance of what has been collected, spent, and held.*

The unauthorized advance. *The netting is not merely a presentation defect; it removed a use of Association funds from the statements. The records show that in early 2020 the Holiday Fund bank account was overdrawn by approximately $4,759.50 and the bank was preparing to return checks issued to building staff; the then-President and then-Treasurer directed that approximately $5,000 of Association funds be advanced to the fund to cover the shortfall, and the transfer was made the same day. The advance was characterized as a loan to be repaid the following year. The records provided reflect no Board vote authorizing the advance, no full-Board resolution, and no repayment (the records do not show whether the advance was carried as a receivable or reflected only as a bank balance). Three defects follow, at three different registers. Authorization: disbursing Association funds is an act of the Board under Section 18 of the Illinois Condominium Property Act and the Association's governing documents; an advance directed by individual officers without a Board vote is outside their authority (the same authorization gap identified for the management bonus, Key Finding 7). Permitted use: even with a vote, whether mandatory assessment funds may be advanced to a voluntary gratuity fund is a separate question under the Declaration's permitted-expenditure provisions and the Board's fiduciary duty. Recovery: because no repayment is reflected, the Association's books do not show whether the advance is carried as a receivable, reflected only as a bank balance, or treated as a loss if it will not be repaid — and the $0 netting is precisely what keeps both off the balance sheet. The pattern is not isolated: the records also indicate the Holiday Fund bank account was closed in 2024 without a Board resolution, and that the Association absorbed approximately $2,681 of Holiday Fund printing and postage costs in 2025–26.*

Internal control. *An off-books committee that collects and disburses cash, run by the Association's officers and management without Board-approved controls, is at minimum a significant deficiency and plausibly a material weakness in internal control (AU-C 265). Because the officers directing the activity are among those who otherwise control the Association's own funds, the arrangement presents a management-override-of-controls and fraud-risk condition the independent auditor is required to consider (AU-C 240); auditors are expected to inquire whether such off-balance-sheet social or committee funds exist. None of this appears to have been surfaced to the Board.*

Tax exposure. *The netting also has a federal-tax consequence that runs opposite to the way it is presented. Voluntary Holiday Fund contributions are not exempt-function income under IRC §528: exempt-function income must be mandatory, pro-rata, and assessed to all members by ownership percentage, which "if-and-when-decided" voluntary contributions are not — so the collections are taxable non-exempt income. The corresponding disbursements — staff gratuities and a social event — do not relate to the acquisition, construction, management, maintenance, or care of Association property, and are therefore nondeductible. Netting the two to $0 on the tax return is impermissible tax netting: on examination, the gross collections would be taxable at the §528 flat rate while the offsetting payments are disallowed. Whichever entity is treated as the taxpayer, the exposure exists and should be quantified with the return preparer (§D-9, §D-14).*

Relationship to pending litigation. The Association's conduct concerning the Holiday Fund is the subject of pending litigation (Mattis v. 175 East Delaware Place Homeowners Association, 2026 CH 04843). This report makes no finding on the merits of that matter and expresses no view on any party's liability. It observes only that the $0 net presentation means the Association's financial statements disclose neither the amounts collected, nor the amounts disbursed, nor the balance held for the fund — the very accounting record at issue — and that gross or custodial reporting would make that record visible.

Why it matters: *the net-basis presentations remove real revenue and expense from the statements the Board and owners rely on; in the Holiday Fund's case they also left an unauthorized, unrecorded, and apparently unrepaid advance of Association funds and a taxable-income exposure off the statements.* ***Require:*** *(1) the Association's written revenue-recognition and presentation policy, and the auditor's confirmation of the basis of accounting and of any departure from GAAP; (2) the Holiday Fund's accounting classification (custodial or combined), its bank-account and segregation status, and the complete contribution-and-disbursement ledger with period-end balances; (3) the documentation of the 2020 advance, any Board authorization, and any repayment; (4) the minutes authorizing (or not) the Holiday Fund, the 2024 account closure, and the 2025–26 costs the Association absorbed; and (5) the return preparer's analysis of the §528 treatment of the voluntary collections and disbursements. These items are consolidated in Exhibit F.*

D-16. Governance Over Revenue-Producing Assets and Ancillary Operations

The findings above repeatedly reach a common structural question: whether recurring financial and operational matters — fee administration, ancillary operations, and revenue-producing assets — carry a consistently documented chain of Board review, approval, or expressly documented delegated authority in the records reviewed. The manager's apartment (designated 4616 in the Association's records and in the reserve study) presents that question in a well-defined form, because both the scope of the records reviewed and the asset's documentary footprint are clearly bounded. As used in this section, the asset is the manager's apartment; the janitor's apartment is outside this section's scope.

The onsite manager's apartment is an approximately 1,100-square-foot, two-bedroom, one-bathroom residential apartment. The budget detail schedules record a twelve-month lease commencing November 1, 2016; no lease for the period from November 1, 2017 through January 31, 2020; and successive twelve-month leases on a February 1 anniversary from February 1, 2020 through January 31, 2027, at a current monthly rent of $2,750; the proposed FY2026-27 budget carries $33,000 of rental income from the apartment. The Board approved each annual operating budget during this period, including the projected rental income associated with the apartment. The apartment's budget presentation and rental analysis appear at §D-3 and Key Finding 8; this section addresses a different question — the documentary record of Board oversight of the underlying lease arrangement.

The documentary record of that oversight has two potential sources: the Board's minutes, which would record any Board action on the lease, and the Management Agreement, which would record any delegation of that authority to management. Taking the minutes first, a review of both open-session and executive-session Board meeting minutes covering approximately July 18, 2016 through July 18, 2026 identified no recorded Board discussion, presentation, resolution, or other Board action specifically concerning the "original" November 1, 2016 lease; the subsequent annual lease "renewals"; rental-rate adjustments or periodic review of rental terms; the authority under which the lease was executed or renewed; or any employee-housing arrangement associated with the manager's apartment.

Turning to the second source, the current Management Agreement contains no express delegation authorizing the Agent or the onsite property manager to execute or renew residential leases or to establish rental rates. The Agreement instead generally requires the Agent to operate under Board policies, contemplates Board approval or execution of contracts, requires written Board approvals where approvals are required, and requires the Agent to maintain copies of the Association's contracts and leases. The absence of an express delegation increases the significance of documented Board oversight: recurring lease executions and renewals must rest on some documented source of authority, and the Agreement's own framework points toward Board-level documentation — the category of record the minutes reviewed do not contain.

One category of Board action is documented throughout the period: the annual budget approval. But that approval and oversight of the underlying lease are distinct governance acts. The Board's approval of each budget documents its approval of the projected rental *income — a real and recurring act of governance, and a board may treat a stable, renewing lease as embedded in that annual approval. But budget approval, standing alone, does not document consideration of the lease's terms, the renewal decisions, the rental rate, or the authority under which the renewals were executed; on the records reviewed, the only documented Board act touching the apartment across approximately ten years is the approval of budgets containing its projected income. These observations are relevant to evaluating whether the Board received sufficiently documented governance information regarding a material revenue-producing asset.*

One further documentary fact frames the oversight question without resolving any valuation question. The June 15, 2026 Management Report provided the Board with current residential leasing information, including 25 new condominium-owner leases during 2026 averaging approximately $3.05 per square foot per month. This report does not use that information to draw any conclusion about the apartment's rental rate. It is noted for a narrower documentary point: management maintained contemporaneous residential leasing data while the manager's apartment continued under recurring annual renewals that the minutes reviewed do not show the Board separately considered.

The apartment is not an isolated observation. The same documentary structure — recurring financial activity, its results embedded in Board-approved budgets, and no separately documented Board consideration or expressly documented delegated authority in the records reviewed — appears in the late-fee administration (a single documented $250 approval attached to a body of reductions whose detailed records counsel represents do not exist; §D-8; Key Finding 9); in the reserve-study record (discussion without a documented adoption resolution or documented periodic review; §D-6); in the compensation items approved only as components of the budget as a whole (§D-1; Key Finding 15); and in the statutorily required per-unit assessment schedule omitted from the distributed materials (Key Finding 12). Individually, each might be explained; collectively, they describe a recurring documentary pattern in the governance of the Association's recurring financial and operational matters. This section states that pattern as a documentary observation and expresses no legal conclusion regarding it.

Require: *every Board action, from open or executive session, concerning the manager's apartment lease, its renewals, its rental terms, or any employee-housing arrangement, from 2016 forward; the documentary source of the authority under which the lease was executed and renewed, including any Board policy, written approval, or delegation contemplated by the Management Agreement; and the Agent-maintained copies of the lease and each renewal (see also the consolidated apartment items at Exhibit F).*

Evaluation of Professional Work Products

This section consolidates findings established elsewhere in this report into an objective evaluation of the Association's principal financial work products — the reserve study, the annual budget, the annual audit, the federal tax reporting, and the management accounting that supports Board deliberations. It evaluates work products, not individuals; it assigns no legal liability and expresses no legal opinion of any kind; and it adds no new findings — every statement below is supported by the detailed analysis, exhibits, workpapers, and source materials cross-referenced. The governing question throughout is the report's central one: ***did the Board have sufficiently reliable accounting and financial information to make an informed FY2026-27 budget-adoption decision?***

The professional work products and related financial information reviewed during this engagement were developed for different purposes and by different participants. However, the Board relied on them collectively when considering the FY2026-27 proposed budget. Accordingly, this synthesis evaluates them according to the principal categories of financial information they provided rather than treating each work product in isolation.

I. Financial Information Available to the Board

This first category concerns the information describing the Association's current-year financial position — the proposed budget itself and the reporting, results, and liquidity measures that inform it. The proposed FY2026-27 budget package is the work product the Board is being asked to adopt; its supporting budget-detail schedules did not agree with the Association's own accounting results through April 30, 2026 and required correction for analytical use, and the package presents an operating surplus atop a $973,400 reserve waiver atop a projected current-year deficit that the package's own actuals column does not show, because that column double-counts approximately $325,000 of segregated cable and internet revenue (§D-11), implements a 3.750% assessment-rate step effective January 1, 2027 — a +2.500% normalized annual change measured against an annualized current rate, with Exhibit H separately printing a 1.926% budget-over-budget change for the assessment account (§D-11) — under a documented methodology that recovers an annual change over eight installments at one and one-half times the monthly depth of twelve, and comes before the Board without May and June operating results (Key Findings 3, 5, 6, and 17; §§D-1, D-7, D-9, D-11; Exhibit H). The monthly financial reporting from which the budget is built was rewritten after issuance and runs on a basis that diverges from the audited statements (§D-10, discussed under Financial Reporting Integrity below). The operating results this information describes have declined across the five-year trend, the operating surplus falling from $1,166,717 in FY2019-20 to $2,723 in FY2024-25 (§D-13); working capital sits below the Board's own long-standing standard, the operating-fund target of approximately $1.425 million in place since at least 2009 now $625,420.50 below the level that standard would set today (§D-11); and, on cash flow, the proposed budget projects reserve expenditures exceeding reserve contributions by approximately $0.8 million (§D-6), while the projected $39,137 current-year deficit feeds the Declaration's mandatory shortage adjustment (§D-11). Taken together, the current-year information available to the Board did not provide sufficiently reliable accounting and financial information to support an informed FY2026-27 budget-adoption decision without significant forensic correction and supplemental information. That *conclusion concerns the reliability of the information itself. A separate question — how the package was prepared, reviewed, and issued — is evaluated at V below; the two are assessed independently, because a budget may reflect defensible spending judgment and still reach the Board through a process that leaves documented reconciliation errors uncorrected.*

II. Long-Term Financial Information

The second category concerns the information the Board needed in order to look beyond the budget year — the reserve study, the insurance program, and the long-term obligations and capital planning that depend on both. The operative basis for reserve planning is the May 20, 2022 reserve study (154 pages), of which the Board's packet materials contained 18 pages (identified in the packet materials as a draft); the study inventories the affected components and estimates their replacement costs but schedules identified high-priority replacement work — approximately $67.7 million on the author's totaling — beyond the study period ending August 31, 2052, so that deferred scope carries no scheduled expenditures or reserve funding within the study's cash-flow plan through that date; its assumptions include 0% income taxes while the Association pays income taxes from reserves ($114,363 audited FY2025; $110,728 federal and $15,000 state budgeted for FY2026-27, again as reserve expenditures), its interest and inflation assumptions cut both ways and cannot be invoked selectively, its age places it at or beyond the 36-month recency window in the 2026 conventional-lending rules, and the recommended contribution ($2,453,400) is therefore itself understated to the extent of the deferred scope (§D-6; §D-7; Exhibit E; Appendix C). The insurance program bears on the same long-horizon question: the FY2026-27 budget reflects a property-package premium reduction whose basis — genuine re-marketing or a change in coverage — is not established in the records reviewed; a budgeted deductible line inconsistent with recent loss experience and with the Association's $250,000 water-damage deductible; and warrantability standards (LL-2026-03 / Bulletin 2026-C, requiring 100% replacement-cost coverage and per-unit deductible rules) that any coverage reduction would implicate, with the procurement and placement file and the record of Board review not among the materials reviewed (§D-5). Against these long-term inputs, the reserve contribution and the $973,400 waiver were measured on a fraction of the study's pages and against a recommendation that understates the requirement: the reserve study did not provide sufficiently reliable accounting and financial information to support an informed FY2026-27 budget-adoption decision without significant supplemental analysis, and the insurance record carries the documented limitations noted above.

III. Financial Reporting Integrity

The third category concerns whether the numbers were produced on a reliable basis — the annual audit, the underlying accounting, the federal tax reporting, and the management accounting that feeds all three. The proposed budget's own comparative illustrates the point: its FY2025-26 current-year column double-counts approximately $325,000 of segregated cable and internet revenue — carried once in the combined assessment account and again on separate revenue lines — overstating current-year revenue and converting a projected operating deficit into an apparent surplus (§D-11). The audited financial statements for the fiscal year ended August 31, 2025 and the year-end adjusting entries produced six adjusting entries in three categories — accrual-type entries, over-accrual removals, and a basis correction — reproduced at Appendix D and analyzed at Exhibit D; the audited statements *report the Association's federal income tax expense as filed on the federal return ($114,363.24), which reflects the filed return and does not establish the Association's ultimate federal income-tax exposure, and this report's forensic findings identify additional taxable interest income and resulting potential federal income-tax exposure beyond the amounts reflected in the filed returns (§D-7; §D-9; §D-14). The reserve interest income at issue is earned on a portfolio maintained primarily in certificates of deposit, money-market funds, and reserve cash (§D-7; §D-10), and the reported federal tax provision is materially dependent on the returns' expense-allocation methodologies — methodologies this report documents as having been applied inconsistently between successive returns (Key Finding 11; §D-9); a financial-statement audit was not designed to determine whether all taxable income required under federal tax law was properly reported, and the forensic review performed additional analyses beyond the scope of the audit to evaluate the completeness of taxable income and related tax exposure. On the accounting basis those statements correct, the over-accruals removed at year-end (water and chilled water) are consistent with estimation-based accrual practices in the underlying records, and the audited and interim statements run on different bases, so interim reporting diverges from audited results until year-end adjustment: the December 2025 reversal entries were effective-dated months earlier, post-audit accounting treatment varied by account, and many but not all audit accruals were reversed, with the $95,597.84 Accrued Interest Receivable remaining recorded (Key Findings 1 and 11; §D-2; §D-10; Exhibit D; Appendix D).*

Accordingly, this work product provided useful historical financial information and appropriately reflected the Association's filed federal income-tax position; however, the forensic review identified allocation methodologies that materially affected reported taxable income (§D-9; §D-14) and that required substantial additional examination beyond the scope of the audit, and additional forensic procedures were necessary before the audited tax information could reasonably be relied upon in evaluating the Association's federal income-tax exposure and the FY2026-27 budget assumptions.

The federal tax reporting itself carries the classification and amount problems those procedures identified. The Association's returns for successive years applied materially different classification methodologies to the same operations — evidence the Association has lacked a consistently applied approach to identifying nonexempt income and allocating deductions; the account-level classifications treated below-market member-facing operations as loss-generating nonexempt businesses rather than capping their deductions at matching nonexempt revenue; employer payroll burden was not allocated with the payroll it attaches to; Revenue Ruling 70-604 was never elected, and counsel's written response states no member vote has occurred in at least seven years; over ten years the Association paid an effective rate of approximately 4.7% on $3.07 million of interest income, this report estimates a $535,704 deficiency, and approximately $150,000 of additional taxable income identified elsewhere produces approximately $45,000 of additional estimated federal tax before further adjustments; the proposed budget provides for income tax as a reserve expenditure ($110,728 federal and $15,000 state) rather than as an operating cost; and the preparer workpapers supporting the allocations have not been produced (Key Finding 11; §D-7; §D-9; §D-14; Exhibits C and G; WP-C). The federal tax reporting did not provide sufficiently reliable accounting and financial information to support an informed FY2026-27 budget-adoption decision without significant forensic correction. The management accounting that supports these work products — the monthly reporting, budget support schedules, and reconciliations, *together with the staffing, ancillary, lease, and tax analyses that inform them — carried the documented limitations set out above — including year-end projections that management did not update for actual results known by June 30, 2026, so that the projected FY2025-26 figures were not a reliable measure of expected performance (§D-9) — and, as detailed in the next category, omitted several classes of support the deliberation required; it did not provide sufficiently reliable accounting and financial information to support an informed FY2026-27 budget-adoption decision without significant forensic correction and the production of information not provided (§§D-1, D-4, D-8, D-9, D-10, D-11; Key Findings 1, 6, and 14; Exhibits C, D, and H; WP-LF-1).*

IV. Governance and Decision Support

The fourth category concerns what the directors were actually given and what the record documents — the documentation behind the information, the disclosures management made, the information provided to directors, and how the individual work products integrate. Several classes of support the deliberation required were not provided: transaction-level records for recurring late-fee adjustments were not produced, and the Association's counsel represented that detailed waiver, write-off, credit-memo, and adjustment logs do not exist (Key Finding 9; §D-8; WP-LF-1); staffing, hours, and rate support for the largest payroll increases was not provided, and roughly 28% of budgeted spending — payroll, benefits, and management compensation — is presented without a workforce plan (§D-1); and lease and Additional Rent support remains open on documented confirmation points (§D-4). On disclosure, the statutorily required per-unit assessment schedule was not distributed (Key Finding 12; §D-12), and revenue and related expense are presented net where gross presentation is required, in three documented instances (Key Finding 14; §D-8). The information provided to directors reflects the same pattern: the reserve study reached the Board as 18 of 154 pages, the budget by major category in each cycle through FY2025-26 and, in the July 20, 2026 packet, at account level but still without the per-unit schedule or a workforce plan, and the record of Board oversight of a material revenue-producing asset consists, across approximately ten years, of the annual budget approvals containing its projected income, with no separately documented consideration or expressly documented delegated authority in the materials reviewed (§D-16). These are documentary observations; this report expresses no legal conclusion regarding them. Integrating the categories, the deficiencies identified in this report arise from multiple independent work products rather than a single decision or event, and these work products feed one another: an understated reserve recommendation shaped the funding inputs; an inconsistent tax-classification baseline shaped the budget's allocation; and interim reporting that diverges from the audited record shaped the projections the budget is built on.

V. Budget Preparation, Review, and Quality Control

This final category evaluates the FY2026-27 proposed budget as a professional work product in two respects that this report keeps separate: the technical quality of the budgeting itself, and the quality-control process by which the package was prepared, reviewed, and issued. The distinction matters because the record supports different answers to each.

Technical quality of the budget. *The record supports genuine strengths. The proposed FY2026-27 columns segregate cable and internet correctly as separate revenue lines; the defect documented at §D-11 is confined to the FY2025-26 comparative, not to the year being budgeted. The reserve contribution rises 45.1% to $1,480,000, materially narrowing the gap to the study's recommendation and bringing the contribution to within approximately $21,000 of the 15%-of-assessment-income floor that takes effect January 4, 2027 (§D-6). The insurance program produced a $521,800 premium reduction, although the records reviewed do not establish its basis (§D-5), and the deductible line, long budgeted at a nominal $5,000, was raised fivefold to $25,000 — a change in the direction the Association's loss experience indicates, although the record does not state its basis. Against those strengths the report documents line-level judgments that depart from the Association's own evidence: office staff budgeted at $381,525, approximately $31,000 below the line's own current-year projection of $412,268 (§D-1); rodding budgeted above the vendor support the prior draft reconciled to (§D-4); the raised deductible still below management's own full-year projection and far below actual experience (§D-5); no provision for credit losses against documented exposure, and an income-tax provision carried as a reserve expenditure rather than as an operating cost (§D-7; §D-14); and roughly 28% of budgeted spending presented without a workforce plan (§D-1). The technical budgeting is therefore mixed rather than uniformly deficient: several of this cycle's most consequential judgments represent real movement in the direction the Association's own study and loss experience indicate, while others are set away from the evidence the Association itself holds.*

Preparation quality control. *The quality-control record is weaker, and it is separable from budgeting judgment because it concerns whether the package was checked against the Association's own records before issuance. Four documented conditions bear on it. First, the FY2025-26 comparative was not reconciled to the prior year's adopted budget before the segregated revenue lines were added, so the same owner charges appear twice and the current-year operating result is overstated by approximately $325,000 (§D-11). Second, the year-end projections were not updated for actual results known by June 30, 2026, and the budget-detail schedules did not agree with the Association's own accounting results through April 30, 2026 (§D-9). Third, the package presents the annual assessment total without the per-unit schedule that would tie it to individual owner charges; whether that reconciliation was performed internally is not established by the materials reviewed, but it cannot be performed from the package as issued (§D-11; §D-12). Fourth, these and other internal inconsistencies required independent reconciliation before the package could be analyzed against the Association's own records — the consolidated reconciliation at Exhibit A and the corrected summary at Exhibit H exist for that purpose. None of these is a disagreement about how much to spend; each concerns a reconciliation that would ordinarily precede presentation of a budget for adoption.*

The review process. *The FY2026-27 budget transmittal (Materials Reviewed) identifies the reviewers through which the package passed: the Finance Committee, working through a documented review process and concluding its work in early June; the committee's chair, the Association's Treasurer; the Board President; the managing agent's on-site management and property supervisor, identified in the transmittal as having provided analysis and supporting information; and the Board of Directors, which the transmittal states reviewed the proposed budget at its July 2026 meeting. The observation here is confined to what the documents show: the reconciliation conditions described above are present in the package as transmitted* *on July 20, 2026 and as it moved to the ownership for the August 17, 2026 adoption vote. The materials reviewed do not establish at what point in that sequence each condition entered the package, and this report does not assume that the version any reviewer saw was identical to the version transmitted. This report draws no inference about what any reviewer examined, noticed, or was told, and attributes no fault to any individual; the documentary observation is that the conditions survived the review sequence rather than being corrected within it. What that indicates is a control question rather than a personnel one: the materials reviewed do not document a reconciliation step, at any review layer, that would have detected a comparative carrying eight months of segregated cable and internet revenue twice.*

Whether the pattern recurs. *The report documents one prior cycle in comparable detail, and the comparison is instructive but bounded. During the FY2025-26 budget cycle the Finance Committee projected roughly $200,000 of favorable underspend to top up reserves on July 21, 2025; the then-current year closed forty-one days later at a $2,723 operating surplus, a variance of approximately $197,000, and the reserve top-up did not materialize (§D-6; §D-13). That is not the same error — a projection that does not materialize is a forecasting variance, not a reconciliation failure — but it is a prior-cycle instance of the same underlying exposure: a figure presented in support of reserve funding that the Association's own results did not bear out. The report separately documents inconsistency between successive periods in the tax classifications and in interim reporting that diverges from the audited record until year-end adjustment (Key Finding 11; §D-9; §D-10). Two limits apply. The materials reviewed do not include a cycle-over-cycle record of the budget preparation and review controls themselves, so this report does not conclude that any particular control was omitted in both years. And the recurrence, so far as the record establishes it, is one of process rather than of substance: on the substantive side this cycle moved in the opposite direction, raising the reserve contribution 45.1%, re-marketing the insurance program, and increasing a deductible line that had been nominal for years. Because the record does not describe the preparation and review controls in either year, this report draws no conclusion about whether those controls changed between the two cycles; what the evidence supports is the narrower statement that the FY2026-27 package reached the Board carrying reconciliation conditions of the kind the prior cycle's experience would have counselled testing for.*

Evaluated as a professional work product, then, the FY2026-27 proposed budget presents a mixed technical record and a quality-control record that is deficient in the specific, documented respects set out above. These conclusions are stated separately and should not be merged: the improvements in reserve funding and insurance are real and are not diminished by the reconciliation failures, and the reconciliation failures are not cured by the improvements.

Considering the reserve study, annual budget, management accounting, audited financial statements, federal tax reporting, insurance planning, working-capital analysis, ancillary operation reporting, and related financial information collectively, the record supports two conclusions within this report's scope, which are stated separately because they answer different questions. As to the information: the proposed FY2026-27 budget was developed from financial records, supporting work products, and management accounting information containing documented limitations that materially affect the reliability of the information presented to the Board for budget-adoption purposes. As to the process: the package as issued does not reconcile to the prior year's adopted budget or to the Association's own *interim accounting results, and cannot be reconciled to owner-level assessment amounts from the materials distributed; those conditions remained uncorrected through the documented review sequence (V above). Neither conclusion displaces the documented strengths in this cycle's substantive budgeting, and neither is cured by them. This report evaluates each work product independently and expresses no legal opinion regarding professional liability, fiduciary responsibility, or other legal issues.*

Conclusion and Recommendations

The question this report set out to answer is not whether the proposed FY2026-27 budget is "right" or "wrong," but whether the Board has enough reliable information to approve the proposed FY2026-27 budget. On the record developed here, it does not — not because any single line is indefensible, but because the budget rests on records that require annual correction to reach an accepted accounting basis, embeds a reserve decision made by a body without authority to make it, allocates costs in a way that understates what the ancillary operations cost the residential members, presents a current-year comparative that double-counts approximately $325,000 of segregated cable and internet revenue and thereby converts a projected operating deficit into an apparent surplus, and reaches the owners without the per-unit disclosure the statute requires. Each of these is specific, documented, and correctable before the August 17 adoption vote; none asks the Board to substitute the author's judgment for management's, only to obtain and act on information the budget presently omits.

Two conclusions follow from that record, and they answer different questions. The first concerns the quality of the budget information the Board received: it is not sufficiently reliable to support adoption without the corrections set out below. The second concerns the quality of the preparation, reconciliation, and review process that produced it: the package as issued does not reconcile to the prior year's adopted budget or to the Association's own accounting results, and cannot be reconciled to owner-level assessment amounts from the materials distributed, so the figures analyzed in this report required independent reconciliation before any conclusion could be drawn from them (Evaluation of Professional Work Products, V). The documented strengths in this cycle's substantive budgeting — among them the 45.1% increase in the reserve contribution and the reduced insurance premium — are real, are not diminished by the reconciliation failures, and do not cure them.

Accordingly, the author recommends that the Board ***defer adoption of the FY2026-27 budget*** *until the following corrective actions and analyses are complete:*

- ***Resolve the year-end accrual items*** *— the basis and disposition of the unreversed $95,597.84 Accrued Interest Receivable and recording of the omitted ~$64,000 property-tax accrual — and separately correct the market-value bookkeeping of the reserve investment portfolio so the monthly statements are prepared on the audit's basis (Findings 1–2; §D-10).*
- ***Place the reserve-funding decision before the owners****, the only body with authority to waive reserves, and obtain the Association's secondary-market compliance plan and the status of an updated reserve study (Findings 3–4; §D-6; Exhibit E).*
- ***Produce the fully-burdened management-office cost and workforce plan****, and allocate the associated payroll taxes and benefits to the ancillary operations on the same basis as the wages they burden (Findings 6–7; §D-1).*
- ***Adopt the corrected exempt-function classification*** *so the budget rests on one consistently applied exempt/nonexempt methodology rather than perpetuating the materially different Form 1120-H methodologies the Association's two return preparers*

have applied (Finding 11; §D-9; Exhibit C).

- ***Resolve the disclosure and books-and-records items*** *— the per-unit assessment schedule required within the statutory window, the current-year shortfall and mandatory shortage assessment, and the ancillary-profitability and lease-verification schedules (Findings 5, 8–10, 12; §§D-8, D-11, D-12).*
- ***Resolve the Holiday Fund and net-basis reporting items*** *— classify and report the Holiday Fund correctly (custodial or gross, not netted to $0), obtain its ledger and the documentation and authorization of the 2020 advance, record any receivable, and correct the gross-reporting departures identified in this report (Findings 14–15; §D-15).*
- ***Produce the documentation consolidated in Exhibit F****, which lists, by subject, the records the Board should obtain to satisfy itself on each finding.*

The five-year trend gives this recommendation its weight. The Association has entered the budget year with essentially no operating cushion — the operating surplus fell from $1,166,717 to $2,723 over five years — so it has little capacity to absorb unfavorable variances, and the reliability of the budget's underlying assumptions matters more, not less, than it would for an association operating with a comfortable margin (§D-13). Proceeding to adoption without the corrections above would commit the Association to a financial plan its own records cannot yet support, embed a reserve waiver that both lacks the owner authorization the Declaration and the statute require and is a documented threat to the marketability of every unit, and forgo the owner disclosure the statute is designed to guarantee. Once these corrections and analyses are complete, the Board will have a reliable basis on which to evaluate and approve a budget — which is the outcome this report is intended to support.

Prior to this forensic review, the Association's Property Asset Transparency Score (PATScore™) stood at 15 out of 100. The deficiencies underlying that assessment — in the annual audit, federal tax reporting, the reserve study, budget preparation, and deferred reserve funding — were identified in this report. Accordingly, these refinements clarify and strengthen the existing findings but do not alter the Association's PATScore assessment or the conclusions stated above.

This report is an analysis prepared to assist the Board's pre-adoption deliberations. It is not legal, tax, or investment advice, and it does not express an audit opinion on the Association's financial statements. Figures reconcile to the July 20, 2026 owner package; they should be re-confirmed against the budget as adopted.

Exhibits

The exhibits below provide the reconciliations, schedules, and the consolidated information demand supporting the Key Findings and Detailed Analysis. Exhibit C is documented in full in the companion working paper "Exempt-Function Classification Corrections & Tax Crosswalk" (July 4, 2026); Exhibit D's underlying journal detail appears in Detailed Analysis §D-10.

Appendices and companion working papers. *The deliverable is organized in three series so a reader can tell at a glance what each item is:* ***Exhibits*** *(A–H) are the report's evidence, presented or summarized within this report;* ***Appendices*** *are the primary source documents, attached behind the exhibits; and* ***Companion Working Papers*** *(lettered WP-A, WP-B, … to parallel the exhibits) contain the detailed derivations and are furnished under separate cover. The Appendices are:* ***Appendix A*** *— FY2025 (2024) Form 1120-H (the objective classification benchmark relied on throughout);* ***Appendix B*** *— Management Agreement (relevant provisions, including §§2.6–2.7);* ***Appendix C*** *— Reserve Study (2022), selected pages (funding recommendation, components scheduled beyond the study period, priority schedule);* ***Appendix D*** *— relevant auditor adjusting journal entries (FYE 8/31/2025), the specific AJEs supporting the non-reversal conclusion (§D-10; Exhibit D);* ***Appendix E*** *— the Finance Committee's FY2025-26 budget transmittal and Exhibit A (June 30, 2025), evidencing the Association's standard budget presentation to the Board and owners (§§D-6, D-8, D-12);* ***Appendix F*** *— the Treasurer's May 21, 2026 email concerning the Fannie Mae reserve-guideline update (§D-6);* ***Appendix G*** *— the Finance Committee's FY2022-23 budget transmittal and Exhibit A (July 19, 2022), evidencing the multi-year reserve-funding representations and the prior budget-inspection practice (§§D-6, D-12); and* ***Appendix H*** *— the Association's FY2026-27 insurance renewal packet (March 16, 2026), reproduced at Appendix H (subcommittee memorandum, proposed resolution, FY2010-11 through FY2025-26 premium history, and Baldwin Group coverage comparison chart); the policy declarations were not reviewed and are not reproduced at Appendix H (§D-5). The principal working papers include* ***WP-C*** *— Exempt-Function Classification Corrections & Tax Crosswalk (7/4/2026), supporting Exhibit C; and* ***WP-H*** *— Budget Analysis Allocation Workpapers, supporting Exhibit H (the facilities-management, office-staff, janitorial, elevator, insurance, and investment-management allocation schedules and the ancillary allocation schedule). Each working paper is captioned with the exhibit it supports (e.g., "Working Paper WP-C — Supports Exhibit C"). Additional intermediate calculations and workpapers are retained in the engagement file.*

Exhibit A — Consolidated budget reconciliation

Forensic Budget Review — 175 East Delaware Place HOA | Exhibit A

Verification note: the figures in this report have been reconciled to the latest color-coded consolidated spreadsheet. All headline totals tie exactly — total operating expense $10,915,438 (assessment $9,611,530 + ancillary $1,303,908), total operating revenue $10,935,576, net operating surplus $20,138 ($472,489 assessment-side / −$452,351 ancillary-side), reserve contribution $1,480,000 against the $2,453,400 recommendation (the contribution equals 60.3% of the recommendation, a contribution-to-recommendation ratio and not a percent-funded measure; $973,400 waived; 9.97% of the annualized current *assessment rate), and reserve expenditures $2,299,993. The seven exempt-function classification corrections described in Exhibit C, together with the allocation of the management-office payroll burden to ancillary on the same basis as the wages it burdens (§D-1), are already reflected in this spreadsheet version; the assessment/ancillary figures shown here are therefore the post-correction amounts, which is why the ancillary side carries a $452,351 loss and the assessment side a $472,489 surplus. The classification argument in §D-9 addresses the exempt/nonexempt allocation as it appears on the Association's own Form 1120-H, applied to the budget's account amounts, which this working spreadsheet has already corrected.*

*Every category below reconciles line-for-line to the consolidated statement. Total operating expense of **$10,915,438** (assessment $9,611,530 + ancillary $1,303,908) is the sum of the seven categories. The percentages in the unofficial summary are computed on total operating revenue ($10,935,576), not expense. On that basis "Other" is shown as a 9.174% residual ($1,003,257) — but actual other-expense is $983,119. The $20,138 difference is the budgeted net operating surplus, which the percentage framework absorbs into "Other." The table below shows true expense.*

Category	***FY 2026-27***	***vs FY 2025-26***
Payroll, benefits, management compensation & taxes	*$3,011,292*	*+9.7%*
Utilities	*$1,775,000*	*+7.6%*
Insurance	*$1,511,300*	*−25.4%*
Reserve contribution	*$1,480,000*	*+45.1%*
Repairs & maintenance	*$1,078,900*	*+3.2%*
Contract services	*$1,050,827*	*−2.2%*
Other (G&A, HVAC, amenities, dock, mgmt fee, legal, audit, Wi-Fi)	*$983,119*	*+6.0%*
Total operating expense	***$10,915,438***	*+3.8%*
Total operating revenue	*$10,935,576*	*+3.3%*
Net operating surplus	***$20,138***	*—*
— Assessment-side surplus	*+$472,489*	*—*
— Ancillary-side loss	*−$452,351*	*—*

The assessment/ancillary split above reflects the July 22, 2026 spreadsheet with CIA's classification corrections applied to the column placements (§D-9), including the deduction-cap treatment of the Hancock Market and 44th-Floor Lease (Club 44) expenses — each retained in the ancillary column up to its matching nonexempt revenue ($6,000 and

$5,200, respectively), with the excess ($89,000 and $30,800) carried in the assessment column as member-amenity cost. The structural conclusion: the assessment base is budgeted to a material surplus while simultaneously absorbing a half-million-dollar ancillary loss and a $973,400 reserve waiver — while the current year is projected to end in an operating shortfall that feeds the Declaration's mandatory shortage adjustment at the calendar-year accounting (§D-11).

***Reserves, stated separately from operating:** the reserve study recommends **$2,453,400**; the budget funds **$1,480,000** — the contribution equals 60.3% of the recommendation — a contribution-to-recommendation ratio, not a percent-funded measure — with $973,400 (39.7%) of the recommended contribution not funded (the budget states only the contribution; the shortfall and the "waived per finance committee" label are CIA's, per the Exhibit H workpaper) — a deferred assessment increase of **9.97%** of the annualized current assessment rate ($9,762,945). Reserve interest income of $800,000 is budgeted as non-operating. Reserve expenditures total $2,299,993 — a 181% increase over the $817,300 of reserve expenditures the Board adopted for FY2025-26. The package's own summary states a 38.4% decrease instead, computed against a $3,733,300 prior-year figure that does not agree with the adopted budget. Capital projects account for $2,173,965 of the total.*

Exhibit B — Workforce cost reconciliation

Forensic Budget Review — 175 East Delaware Place HOA | Exhibit B

The following reconciles the full workforce cost to the Payroll, benefits, management compensation & taxes category (Detailed Analysis §D-1). It commingles two distinct workforces — the Association's directly-employed union staff and the management company's contracted personnel — which the budget does not separately total.

Line	***FY 2026-27***
Janitors (4070)	*$1,016,500*
Door staff (4100)	*$377,400*
Receiving room (4160)	*$175,000*
Part-time relief (4190)	*$110,000*
Painter (4220)	*$121,100*
Office staff (8050)	*$381,525*
Staff bonuses (8060)	*$28,000*
FICA (4400)	*$166,900*
Unemployment taxes (4420)	*$9,096*
Health insurance — non-union (4600)	*$62,514*
Union benefits (4620/4630/4650)	*$533,757*

Line	FY 2026-27
Uniforms — purchases (4810) and rental (4820)	*$29,500*
***Total workforce cost** (excludes workers' compensation insurance, carried in account 8700)*	***$3,011,292 (27.537% of total operating revenue)***

Exhibit C — Exempt-Function Classification Corrections & Tax Crosswalk (summary)

Forensic Budget Review — 175 East Delaware Place HOA | Exhibit C

Seven revenue and expense lines are placed in the wrong assessment/ancillary column (Detailed Analysis §D-9). Revenue: Unit charges $24,100 and operating Interest Income $15,000 corrected to Ancillary; Sale & lease processing fees $106,300 and Moving fees $28,500 corrected to Ancillary (for-service income, hence non-exempt). Expenses: Hancock Market $95,000 and JHC 44th-floor lease $36,000 corrected to Assessment (member amenities at sustained structural losses); Locks and keys split $3,900 Assessment / $3,000 Ancillary. The full derivation, tax authority (Treas. Reg. §1.528-9; the Instructions for Form 1120-H, definition of exempt function income and the taxable-income computation; the Portland Golf Club analysis), and the Form 1120-H crosswalk are set out in the companion working paper "Exempt-Function Classification Corrections & Tax Crosswalk" (July 4, 2026), which is furnished under separate cover and incorporated here by reference. Separately, the Association's two return preparers applied materially different Form 1120-H methodologies (Key Finding 11; §D-9); the corrections above, and Exhibit H throughout, apply one account-level methodology consistently.

Exhibit D — Auditor adjusting journal entries (FYE 8/31/2025) — category summary

Forensic Budget Review — 175 East Delaware Place HOA | Exhibit D

CIA reviewed the complete population of six audit-related journal entries. The three categories presented below reconcile to the auditor's schedule total. The six AJEs (workpapers dated 12/19/2025; recorded effective 8/31/2025) fall into three categories: (A) accrual-type adjustments — reversed in many cases through December 2025 REV AUDIT entries in management's general ledger, but not universally: the $95,597.84 Accrued Interest Receivable (account 1410, AJE #3) was not reversed and remained recorded — the general ledger reviewed for this engagement contains no entry reversing or removing it, and the balance continues on the June 30, 2026 financial statements generated July 7, 2026 — while the moving-fee and expense-accrual adjustments (AJE #6 and the AJE #4 legs) were reversed and the $115,000 federal income tax payable (AJE #5) was settled off the books; (B) over-accrual corrections, $93,513.36 — posted via the effective-dated entry, landed in FY2025; (C) basis corrections, $19,382.72 — posted, underlying method unchanged (the recurring CD market-to-cost adjustment). Outside all three sit CIA's proposed analytical adjustments — including the omitted year-end property-tax accrual of approximately $64,000, split between two general-ledger accounts, recorded by neither management nor the independent auditor — presented solely for analytical and comparative purposes and not posted to the Association's accounting records. The account-by-account schedule and the tie-out of reserve interest (client $837,937.62 + AJE#2 $19,379.54 + AJE#3 net $32,557.84 = audited $889,875.00) appear in Detailed Analysis §D-10.

Exhibit E — Reserve funding and waiver

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Study recommendation $2,453,400 (Reserve Study, 2022, selected pages at Appendix C; current reserve balance $19,118,325 as of 12/31/2021 against a 30-year replacement scope the study totals at ~$119.8M; the study uses the Cash Flow Method and a 0.20% interest assumption); budgeted contribution $1,480,000 (60.3% of the recommended contribution — a contribution-to-recommendation ratio, not a percent-funded measure); shortfall $973,400 (39.7%), which the budget neither states nor computes — it shows only the $1,480,000 contribution; the shortfall and the "waived per finance committee" designation are CIA's, per the Exhibit H workpaper. The waiver equals a 9.97% deferred assessment increase ($973,400 ÷ $9,762,945 annualized current assessment rate). Authority for waiver rests with the owners (2/3 of total votes, plus disclosure) under both the Declaration's own Article VI, §1 waiver provision and 765 ILCS 605/9(c)(3); the Declaration mandates reserves (Article VI, §1), so the reduction does not satisfy the Declaration's requirements as well as the statute's. The Finance Committee has no such authority and no owner vote is known. Warrantability (Fannie Mae LL-2026-03 / Freddie Mac Bulletin 2026-C): effective August 3, 2026, Full Review with a highest-recommended-allocation standard the budget fails by the $973,400 waiver, dollar for dollar; effective January 4, 2027, a 15%-of-assessment-income floor (~$1,501,100) the $1,480,000 contribution (14.8%) also fails; the 2022 study's age forecloses the study alternative. Reserve interest budgeted at $800,000 cannot be verified: the YTD is overstated by the $95,597.84 unreversed accrual, reduced by the $90,947.86 unrealized market-value loss, and understated by the absence of a year-end accrual; the net direction is indeterminate until the figure is rebuilt on the correct basis (actuals through 4/30/2026, net of the reversal, excluding unrealized G/L, plus projected interest through 8/31/2026, plus year-end accrual) (Detailed Analysis §D-6, §D-10).

Exhibit F — Consolidated information demand

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The consolidated list below identifies the information that should be requested in writing before the August 17 budget vote. It serves two purposes: it is the written information request to be submitted before the Board acts on the proposed budget, and, if the requested information is not voluntarily produced, it provides the basis for a formal records demand.

- ***The per-unit schedule of each unit owner's anticipated assessments and the itemized other anticipated income for FY2026-27, with proof of the date and method of distribution to owners; the same for the prior three budget cycles; and the 18(a)(8) meeting notices (mailing and posting) for the August 17 meeting.***
- ***The itemized year-end accountings required by the Year-End Accounting and Shortage Adjustment provision (Declaration, Article VI, §1) for calendar years 2023, 2024, and 2025, with proof of delivery on or before April 1 of the following year and the year basis (calendar or fiscal) on which each was prepared; the Board's disclosure to owners of the projected $39,137 FY2025-26 shortfall and of the shortage-adjustment mechanism attaching to the calendar-2026 accounting; and the computation***

supporting the $39,137 projection; and the annual or adjusted estimate delivered for the January 1, 2026 assessment change, with proof of mailing or delivery (Declaration, Article VI, §5).

- ***The Board resolution or minutes establishing the ~$1.425M operating fund target (in place since at least 2009), the Association's current operating-liquidity policy, and the Board's most recent reassessment (if any) of the target against current operating expenditures.***
- *The audited operating income, operating expense, and operating surplus for FY2019-20 through FY2024-25 supporting the five-year trend analysis (Detailed Analysis §D-13).*
- ***The workforce documentation per §D-1: the position-by-position schedule separating Association union employees from contracted management personnel with the total cost of each workforce; the fully-burdened cost of the office staff and its allocation (gross wages plus all §2.6-reimbursed employer payroll taxes and benefits, allocated residential/ancillary on the same basis as the wages — confirming the burden follows the 56.0% ancillary allocation the tax return applies to the wages rather than remaining in the assessment column, and whether account 8050 is at-cost or marked-up); the account 4600 assumptions schedule (covered headcount, employer contribution percentage, aggregate employee contributions, drivers of the +18.1%/+31.4% increase) and confirmation of whose employees it covers and whether billed at cost; the bonus program record (year-by-year history from FY2010-11, the basis for the $1,261→$28,000 increase, performance measures, Board policy, and the documents authorizing the charge — written Board approval, compensation schedule, invoice, payroll support, or contract amendment — and whether the bonus is charged within §2.6 personnel expenses or as a separate charge subject to §13); the detailed general ledger entry or entries for account 8060 identifying the approving party for each bonus payment, including the entry or entries reflecting Sudler Management as the approving party rather than the Board; the ABOMA/SEIU rate reconciliation; the office-staff roster and flat-budget explanation; and the ancillary-allocation usage measurements.***
- ***The property manager's apartment: the current lease and full renewal history; the basis for the unchanged rent since at least 2/1/2024 and for budgeting a 0% increase upon the 2/1/2027 renewal; a market-rent comparison; the tenant's identity and any affiliation with management, the Board, or their relatives; the apartment's condition assessment and capital-improvement history; and confirmation of whether the apartment's components are included in the reserve study.***
- *Every Board action (open or executive session) concerning the manager's apartment lease, its renewals, rental terms, or any employee-housing arrangement, from 2016 forward; the documentary source of the authority under which the lease was executed and renewed (including any Board policy, written approval, or delegation contemplated by the Management Agreement); and the Agent-maintained copies of the lease and each renewal. (§D-16.)*
- ***Hancock Market lease compliance: the tenant's annual gross sales certifications for all lease years to date; the percentage-rent calculations; the reconciliation of amounts billed and collected; and confirmation that lease obligations have been independently reviewed before budget approval (per the §D-8 recommendation).***

- ***Late-fee revenue and collection practices: the general-ledger activity (detail) report for account 3830 for FY2022-23 through FY2025-26 — every posting shown transaction by transaction with date, amount, unit, and description, being the standard single-account export from which the monthly summaries and the audited annual figure were compiled, and which is responsive whether or not a purpose-built "waiver ledger" is separately maintained; the FY2025-26 late-fee billings and credits by month (reconciling the $750 YTD revenue and the ~$9,917 unfavorable variance, and the month in which ~$3,500 of credits exceeded ~$3,250 of new fees); the accounts-receivable aging detail reconciling the late fees assessed (Companion Working Paper WP-LF-1) to the pre-posting $2,500 outstanding balance the May 11, 2026 board-packet aging shows, and to the SNAPP-enrollment waivers between them; the Board-adopted late-fee and collection policy, if any; the authorization trail for fee waivers and credits; and the basis for the FY2026-27 late-fee revenue assumption.***
- ***Cable billing methodology: the provider's invoices showing the active-connection count (~645), the owner billing roster (703 legal units), the count of combined-unit residences billed multiple fees, and the Board's evaluation of per-residence allocation consistent with the provider's billing.***
- *The Finance Committee's documented basis and any Board or owner vote for the $973,400 waiver; the declaration/bylaws provisions bearing on reserves (§9(c)(3) availability); records of any 2/3 owner vote; specimen §22.1 disclosures (bold-print waiver statement); conflict disclosures.*
- *The Association's plan for LL-2026-03 / Bulletin 2026-C compliance, its current lender-questionnaire responses, and the updated reserve-study commissioning status; the 2022 study's assumptions page, and whether the manager's apartment is in the study's scope.*
- ***The journal detail and actual posting date of the AJE entries effective-dated 8/31/2025; the September 2025 general ledger confirming the absence of reversing entries; the FY2025-26 settlement detail for each Category A balance (1410, 1381, 2100, and the expense accruals within 2300/2310/2500), showing whether each settlement was charged to the liability or to expense; management's written accrual and reversing-entry procedure; and restated YTD actuals and projections on a reversed, conformed base.***
- ***The Association's written investment accounting policy; the monthly 9020 activity for FY2025-26 separating interest receipts, market-value adjustments, and accrual entries; a statement of the basis of accounting used for monthly Board financial statements and of how the records comply with 765 ILCS 605/18.10 and 68 Ill. Adm. Code 1445.130(b); and prior years' AJE schedules confirming the recurring market-to-cost correction.***
- ***The Holiday Fund and net-basis reporting: the fund's accounting classification (custodial or combined) and its bank-account and segregation status; the complete contribution-and-disbursement ledger with period-end balances; documentation of the 2020 advance of approximately $5,000 of Association funds, any Board authorization for it, and any repayment; the minutes (if any) authorizing the Holiday Fund, the 2024 bank-account closure, and the 2025–26 printing and postage costs the***

Association absorbed; the Association's written revenue-recognition and presentation policy and the auditor's confirmation of the basis of accounting; and the return preparer's IRC §528 analysis of the voluntary collections and disbursements.

- *The reconciliation of the FY2024-25 budgeted reserve interest income to the FY2024-25 audited financial statements, identifying the approximately $436,203 of unrealized investment gains included as reserve interest income in the budget and reported separately in the audit; and confirmation of whether the FY2026-27 $800,000 reserve-interest budget likewise includes any unrealized market-value amounts.*
- *The monthly financial statements furnished to the Board from September 2025 forward, and whether any were reissued after the retroactive posting.*
- *The FY2025-26 and FY2026-27 tax accrual computations (federal and Illinois), the estimated-payment schedule, and the ledger-to-1099 interest reconciliation. (Note: the 2100 accounts payable for the FY2025 federal income tax has been confirmed settled off the books; no reversal demand remains on that item.)*
- *The reserve interest income figure for FY2025-26 computed on the correct basis, as the verified baseline against which the FY2026-27 $800,000 budget figure should be confirmed or restated: actuals through April 30, 2026 (net of the $95,597.84 reversal of the unreversed FY2025 accrual and excluding unrealized gains/losses), plus projected interest income from May 1 through August 31, 2026, plus the year-end accrual at August 31, 2026. The YTD figure as currently reported is distorted by three independent matters — overstated by the unreversed accrual, reduced by the $90,947.86 unrealized market-value loss, and understated by the absence of the year-end accrual — making the net direction of the $800,000 budget indeterminate until this computation is produced.*
- *The Hancock Market and 44th-floor lease agreements (Additional Rent provisions), the landlord's real estate tax bills and the 5/8–3/8 derivation, and the year-end Additional Rent accrual computation through 8/31 for accounts 6780 and 7500.*
- *The Freepoint electricity contract and the basis for the $103,365 above the AUS estimate; the commercial water and chilled-water allocation methodology with underlying bills and meter data.*
- *The elevator maintenance contract (−23.5%) and the elevator-repair explanation; vendor justification for the JHC misc-repair and rig-repair amounts above Hearn's projections.*
- *The broker's marketing summary and placement analysis, documentation supporting any coverage changes not evident from the renewal packet (Appendix H), together with the policy declarations, which were not reviewed, insured value against the LL-2026-03 100% replacement-cost standard, and the deductible-budget basis.*
- *The preparer's contemporaneous written tax analysis supporting the proposed reserve contribution, the projected budget surplus, and the related federal income-tax treatment — including any analysis under IRC §118, Revenue Ruling 70-604, or other authorities relied upon.*
- *The project-level detail behind the $294,412.80 of FY2025 spending in account 9360 "Unidentified — Other Capital Projects."*

- *The litigation-cost assumption in legal-association and the separate D&O/deductible treatment; the Miscellaneous Administrative and consulting itemization.*
- *A per-service ancillary P&L (cable, Wi-Fi, storage, laundry, valet) and the consolidated-GL allocation methodology; the commercial property-tax pass-through support for accounts 6780 and 7500.*
- *For each ancillary operation individually — property manager's apartment, unit charges, storage room, hospitality room, laundry — the revenue, the directly attributable cost, the resulting profit or loss, and the basis and date on which the current fee or rate was set; and for unit charges specifically, the separation of labor from materials.*
- *The composition of the "Audit fee" line: confirmation that the true financial-statement audit cost is approximately $18,300 and that the approximately $25,000 of election-administration cost has been reclassified out of audit (to Miscellaneous Administrative, assessment column); the election-administration vendor invoice; and the assessment/ancillary allocation basis for the corrected $18,300 audit cost.*
- *For the real estate tax attorney line, the gross attorney fee and, separately, any tax recovery obtained; confirmation of whether the fee is passed through to owners as a special assessment and, if so, the amount and the Board's basis for funding a recurring professional fee by special assessment rather than as an operating expense; and the fee agreement (including any contingent-fee terms).*
- *Confirmation of the reserve fund's treatment of income taxes: whether income taxes have been paid from the reserve fund, the cumulative amount so charged, the reserve study's tax assumption (understood to be $0), and the basis for charging a study-unfunded obligation to reserves rather than to the operating fund.*
- *The Association's fidelity bond and its coverage limit, confirming the bond covers funds in the Association's custody plus the reserve fund balance, as Article VI of the Declaration requires.*
- *An accounting of every fine the Board levied in 2026 (including the $250 February, $350 April, and $2,500 April fines), the account in which each was recorded or, if unrecorded, confirmation of that fact, the collection status of each, and an explanation of why Miscellaneous Income shows only $3,757 through June 30, 2026, none of it the documented fines.*
- *Confirmation that late fees are assessed only on delinquent assessments (not on ancillary or fee-based balances), consistent with Crooks v. Hidden Grove; the effective-interest-rate calculation underlying the late-fee schedule; and the Board's consideration of reducing the late-fee amount to a consistently enforceable level.*
- *The SNAPP payment program: the program terms and enrollment records; the late-fee waivers granted on enrollment, by account, date, and amount; the provision of the Rules and Regulations or other governing document authorizing the SNAPP late-fee waiver (the current Rules and Regulations contain none); and any Board resolution authorizing the practice.*

- *Confirmation that the legal-chargeback line (3950) and the legal fees-units line (8330) are budgeted to match ($25,000 each), and the basis for the recovery assumption given collection experience.*
- *The basis for the $0 Credit Losses Expense (8280, formerly Bad Debts Expense) budget, and the Association's assessment-and-charge write-off history supporting an expected-loss provision.*
- *The basis for the $25,000 insurance-deductibles budget (8720) and the unchanged $30,051 full-year projection against $144,027 of actual deductible expense recorded through June 30, 2026 and the $250,000 water-damage deductible, including the deductible/SIR levels on the renewed insurance package.*
- *A net-cost evaluation of the building's member amenities and concessions — Potash (Hancock) Market, Hi-Lite Cleaners, the Pool, the Health Club, and the Hospitality Suite — showing what each costs the Association to provide, what it recovers, and the Board's decision on the appropriate level of subsidy or fee for each.*

Exhibit G — Illustrative Form 1120-H taxable-income model (why per-activity accounting is required)

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Profit motive and the deductibility of ancillary losses. *Several of the Association's nonexempt activities are member conveniences priced below cost by design — the Hancock Market retail space, for example, produces $6,000 in sublease rent against roughly $80,188 in costs carried on the Hancock Market account (lease-tax payments and other expenses), and the laundry, key, and similar operations are structured the same way. Activities run at a sustained structural loss for members' benefit — on the face of the underlying lease and cost obligations — lack the commercial profit motive federal tax law requires before their losses may offset other income: under the analysis of Portland Golf Club v. Commissioner and Concord Consumers Housing Cooperative v. Commissioner, as this report reads those authorities, losses from activities not conducted with a genuine profit motive cannot shelter the Association's taxable reserve-interest income, which is instead taxed on its own. That requirement does not arise from IRC §183 — which by its terms applies only to individuals and S corporations and does not govern this Association under either filing posture — but from §528(d)'s directly-connected-deduction structure and the trade-or-business predicate applicable to any corporate deduction. The closest analogous authority is Portland Golf Club as applied in Losantiville Country Club v. Commissioner, T.C. Memo. 2017-158, aff'd, No. 17-2394 (6th Cir. Oct. 15, 2018), which sustained deficiencies and accuracy-related penalties where a membership organization offset investment income with sustained nonmember losses, and which declined to let the facts-and-circumstances factors of Treas. Reg. §1.183-2(b) substitute for the profitability showing; those factors — particularly the sustained-loss factor, §1.183-2(b)(6) — remain a useful reference, under which sustained losses may indicate, but do not by themselves establish, the absence of a profit objective. Because the budget presents ancillary results only in aggregate, the Board cannot identify which operations these are, or evaluate the deductibility question, before it votes.*

The following illustration reflects the analytical framework used throughout this report. Each nonexempt activity is evaluated separately, and taxable investment income is considered independently. The purpose of the illustration is to demonstrate why separate accounting for each ancillary operation is necessary when evaluating the Association's potential federal income tax exposure on Form 1120-H. It is illustrative of the method, not a computation of the Association's liability; the actual figures cannot be produced until the Association discloses each activity's directly-connected income and expense (the per-operation profit-and-loss schedules requested in Exhibit F).

Expressed as a formula, illustrative taxable income under the Form 1120-H method is:

$$\text{Illustrative Taxable Income} = \Sigma_{i=1..n} \max(0, \text{Net Nonexempt Activity}_i) + \text{Taxable Investment Income}$$

where each Net Nonexempt Activity$_i$ is that activity's gross income less the deductions directly connected to producing it, and the activities evaluated separately include (as applicable to the Association):

Nonexempt activity	***Net (if positive) enters taxable income***
Storage room rental	*max(0, Storage net)*
Apartment rent	*max(0, Apartment net)*
Unit charges	*max(0, Unit-charges net)*
Laundry (net of commission)	*max(0, Laundry net)*
Cable television	*max(0, Cable net)*
Internet / Wi-Fi	*max(0, Internet net)*
Hospitality room fees	*max(0, Hospitality net)*
Locks and keys	*max(0, Locks & keys net)*
Hancock Market	*max(0, Hancock Market net)*
Valet dry cleaners	*max(0, Valet net)*
Plus: Taxable investment income	*Taxable interest + taxable dividends + taxable capital gains*
= Illustrative taxable income × 30% (IRC §528 flat rate)	*= Illustrative federal tax*

The ***max(0, ·)*** *operator is the entire point, and it is where the report's classification and disclosure themes converge. Under the Form 1120-H regime of IRC §528, an electing association is taxed on its "homeowners association taxable income" — its gross income other* *than exempt function income, reduced only by deductions directly connected with the production of that non-exempt income (§528(d)). Two consequences follow, and both depend on activity-by-activity accounting the Association does not currently provide:*

(1) A loss on one nonexempt activity does not shelter the gain on another. *Because each activity's taxable contribution is floored at zero (a net loss contributes nothing, rather than a negative that offsets other activities), a profitable storage operation cannot be washed out by a loss-making cable or Hancock Market operation, and neither can be netted against taxable investment income. An association that reports its ancillary operations as a single blended figure — as the proposed budget does, applying allocation percentages to consolidated GL accounts so no activity shows its own result (§D-8) — cannot see, and may materially understate, the sum of the positive activities that actually drive the tax.* ***(2) Only directly-connected deductions count.*** *Expense claimed against an activity beyond what is directly connected to producing that activity's income is not allowable and, if used to reduce another activity's or investment income's tax, understates liability — the same defect the report identifies in the deduction structure of the FY2025 return (§D-10) and in deductions limited to income earned for the hospitality room and locks & keys (§D-8). Directly connected is not confined to direct cost: a reasonably allocated portion of shared or overhead expense — investment management, management and accounting fees, audit and tax-preparation fees, and fidelity bond costs — may qualify where it is attributable to producing the non-exempt income (Treasury Regulation §1.528-10). That is why the per-operation schedule sought at Key Finding 16 calls for allocated overhead alongside directly-connected costs.*

Authority: IRC §528(c)–(d) (definition of exempt function income and of homeowners association taxable income as gross non-exempt income less directly-connected deductions), and the 30% flat rate of §528(b) applicable to condominium management associations. The "no cross-netting" result follows from the statute's activity-level, directly-connected-deduction structure and should be confirmed against the return preparer's workpapers. This exhibit is an analytical illustration of method, not tax advice or a computation of the Association's liability.

Exhibit H — Color-coded consolidated budget summary (accompanying document)

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The primary source document for this review is the four-page color-coded consolidated budget summary prepared July 22, 2026 (CIA markup of the Association's proposed FY2026-27 budget). It is provided as an accompanying document and incorporated here by reference; because it is a color-coded spreadsheet, it is furnished in its native form rather than reproduced in this text, so that the color-coding and the account-level detail are preserved. Every dollar figure in this report reconciles to that summary (Exhibit A verification note).

The summary presents, for each account, the FY2025-26 total budget, year-to-date actuals through June, the full-year projection, and the proposed FY2026-27 amounts split between the assessment and ancillary columns, together with a reclassification summary. CIA's analytical markings on the summary serve distinct purposes, detailed in the exhibit's own legend and at §D-9, and none is an adjustment to the Association's accounting records:

On the FY2025-26 columns: corrections to management's reported year-to-date actuals where the supporting schedules did not agree with the accounting results through April 30, 2026; verification flags on the assessment, cable-television, and Wi-Fi lines, which the summary marks as revenue accounts requiring analytical separation because the Association's accounting records do not report those revenues separately, and which identified those accounts for checking against the July 20, 2026 owner package — verification since completed, confirming that the charges remain reflected in both assessment income and the separately presented cable-television and Wi-Fi accounts (§D-11); and analytical year-end adjustments in the projection column, including the approximately $64,000 lease-property-tax accrual recognized between Hancock Market and the JHC 44th Floor Lease. On the FY2026-27 columns, three kinds of allocation corrections: classification corrections, moving a line between the exempt (assessment) and nonexempt (ancillary) columns; allocation-assumption corrections, including burden-follows-payroll allocation of FICA, unemployment, and health insurance; and deduction caps limiting the ancillary expense of Locks and Keys, Hancock Market, and the JHC 44th Floor Lease to their respective nonexempt revenues. Separately, a presentation-comparability reclassification presents the election-administration and vote-tallying amounts in Miscellaneous Administrative rather than Audit Fee in all periods shown, conforming the FY2025-26 presentation to the FY2026-27 structure (§D-7). The baseline allocation is the Association's own exempt/nonexempt allocation from its most recent Form 1120-H, applied at the account level; the corrections are summarized in Exhibit C and analyzed in §D-9. The assessment/ancillary figures quoted throughout this report are the post-correction amounts reflected in this summary; the classification argument in §D-9 addresses the exempt/nonexempt allocation as it appears on the Association's own Form 1120-H, applied to the budget's account amounts, which this working summary has already corrected.

Prepared by Common Interest Advisors, LLC as a forensic working paper (prepared July 2026), based on the Sudler category detail (6/1/2026), the 7/22/2026 color-coded consolidated spreadsheet, the auditor's FYE 8/31/2025 adjusted trial balance and AJEs (12/19/2025, recorded effective 8/31/2025), the Declaration's Year-End Accounting and Shortage Adjustment provision, the Association's audited financial statements, IDFPR Ombudsperson guidance, and Fannie Mae LL-2026-03 / Freddie Mac Bulletin 2026-C; all figures reconcile to the July 20, 2026 owner package and should be re-confirmed against the budget as adopted. This document is analysis, not legal, tax, or investment advice.